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CREDIT AND CAPITAL MARKETS 1981

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January 23, 1981

CREDIT AND CAPITAL MARKETS 1981

Not in recent memory have the credit and capital markets begun a year on such an uncertain note as prevails at the start of 1981. Though severe financial stresses and strains of the kind that emerged in the wake of the 1974-75 recession have so far not surfaced on any scale and credit has remained generally available, the twelve months just past were a most turbulent period for lenders, investors, portfolio managers and securities traders. The unparalleled volatility that characterized last year's financial markets has already brought about far-reaching shifts in the operating practices of financial institutions and in the management of investment funds that are not likely soon to be changed. Also, the unusual behavior of interest rates and the resulting shifts in the pattern of financing have distorted balance sheets and changed financial planning almost all along the line.

Against this backdrop, and despite the resiliency displayed by the financial markets in the face of the many pressures, the task of projecting credit demands and flows of funds through the money and capital markets and assessing their impact has become more than a little hazardous. Based on past experience, the year ahead should see an extended decline in interest rates and a noticeable relaxation of financial markets. Not only is it expected that the economy will turn more sluggish, but there are some signs that Federal Reserve policy is finally succeeding in slowing the growth of the money supply. Additionally, there is the hope that fiscal policy will begin to take a new and more favorable direction under the Reagan Administration.

Market psychology, however, is still in the grip of inflation, and financial institutions, businesses and consumers all have been rapidly adapting to such an environment, as well as to historically high interest rates. Until inflationary expectations are materially dampened, the credit and capital markets are bound to remain unsettled and swift-changing, mirroring developments in 1980.

THE HERITAGE OF 1980

Last year was one of unexpected and dramatic changes in the credit and capital markets, nearly all stemming in one way or another from the double-digit inflation. Of these market changes, unquestionably the most important, and the one that has left the deepest imprint on the financial system, was the widely gyrating interest rates.

Swings In Interest Rates The magnitude and speed of the swings in interest rates during 1980 exceeded anything experienced by present-day market participants. Contrary to expectations at the start of the year, the full spectrum of money market rates and long-term yields shot up to new highs by late March, when the Federal Reserve tightened monetary policy in an effort to choke off the inflation-swollen credit demands. The new highs were several hundred basis points above the previous peaks reached in the autumn of 1979, and at times during this period interest rates moved as much in a day or two as would normally occur in a month or more. The subsequent retreat of interest rates in the spring, in response to the widespread signs of weakening in the economy and the much slower growth of the money supply, was equally as abrupt and even more spectacular than the earlier run-up.

KEY INTEREST RATES

PER CENT

	Early 1980 high	Summer low	December high
Federal funds	19 39	8 68	19 83
Treasury bills - 90 day	16 53	6 37	16 67
Certificates of deposit - 90 day	18 06	8 14	20 58
Commercial paper - 90 day	17 66	7 96	19 98
Bank prime rate	20 00	11 00	21 50
Treasury notes - 2 year	15 16	8 49	14 77
Treasury bonds - 20 year	12 79	9 59	12 86
New telephone bonds	13 88	10 50	14 75
Municipal bonds	9 44	7 11	10 56
Home mortgage rates*	16 59	12 52	14 93

*Conventional. 75 per cent loan-to-price ratio, 25 years.

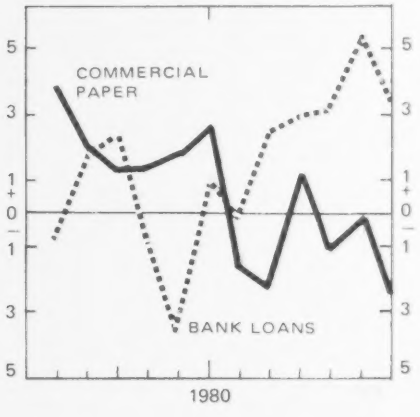
Interest rates changed direction just as suddenly again at midsummer, when the unexpected quick recovery in economic activity and heightened inflationary expectations combined with heavy Treasury borrowings and a sudden tightening of Federal Reserve policy to reverse the downtrend. Indeed, the jump in money market rates from August through mid-December was even greater than the earlier decline, and although long-term yields reached new peaks, the yield curve became steeply inverted for a second time last year. By year-end, both short- and long-term rates had

fallen back somewhat but they still were at elevated levels. And as 1980 came to a close, the credit and capital markets bore a greater resemblance to the latter stages of a business boom than the initial months of an economic recovery.

The extreme volatility of interest rates throughout 1980, and the swift climb of both money market rates and bond yields to new peaks after the summer, significantly influenced the pattern of financing in the credit and capital markets, as well as the strategy of investment officers, and brought about a number of innovations. No sector escaped the tensions that existed through much of last year and none failed to accommodate, in some measure at least, to the changed interest rate conditions and uncertain prospects.

Business Financing Borrowing by business, though volatile, generally followed the typical cyclical pattern during a period of economic downturn. Early in 1980, as interest rates moved up sharply and as profits came under pressure, business corporations relied heavily on short-term borrowings—bank loans, commercial paper and loans from finance companies—for their external financing, since the record cost and highly unsettled market conditions discouraged many companies from going to the bond market. The steep decline in interest rates in the spring triggered a surge of new bond offerings, especially by manufacturing companies, in the effort to restructure balance sheets and provide for capital spending programs.

SHORT-TERM BORROWING
IN BILLIONS OF DOLLARS



Corporations also continued to make very active use of the commercial paper market as a source of financing. But borrowing from commercial banks was cut back substantially, reflecting the drop-off in industry sales and output; and for a time during the spring, the Federal Reserve's voluntary restraint program put a damper on bank lending to business. An even bigger reduction occurred in business borrowings from finance companies, particularly for automobile dealers' floor planning, which carried on through the year. And, reflecting the reduced economic activity, trade credit declined.

As interest rates began to rise again, and when the commercial banks began to price more aggressively during the summer, bank borrowing accelerated, as corporations—nonfinancial and financial alike—placed less reliance on commercial paper. Commercial and industrial loans increased at an annual rate of over 20 per cent from September through December, with the expansion faster at the money center banks, and the banks satisfied the bulk of the credit needs of business.

CORPORATE BOND FINANCING
IN BILLIONS OF DOLLARS

Meanwhile, the unexpected climb in interest rates conspicuously interrupted bond market activity and resulted in a number of postponements of new issues. The volume of new publicly offered corporate bonds, which averaged close to $7 billion a month in May and June, fell to under $1½ billion in November and December, as corporations, most notably industrial companies, were unwilling to be locked into the near-record and still-rising cost of borrowing at long term, and

investors opted to shorten their portfolios. Activity in the private placement market also dropped off when the life insurance companies, concerned over their cash flows, inflation and the limited opportunities for trading private placements, cut back on making new commitments.

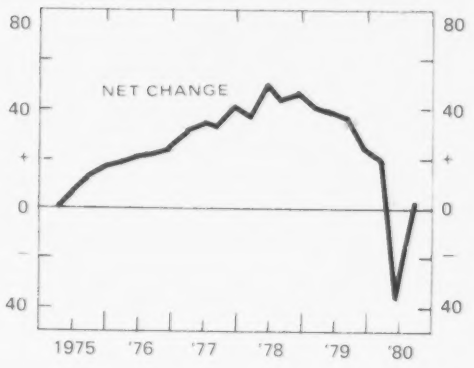
Still, for the year as a whole, net new bond issues of nonfinancial corporations amounted to a record $32½ billion, $11 billion more than in the previous year. In addition, $9 billion of bonds were issued by financial concerns, $1 billion greater than in 1979. Despite this huge amount of bond financing, though, the ratio of short-term to long-term debt, instead of declining as is typical in the initial stages of business recoveries actually was higher at the end of 1980 than when the year began. Moreover, the absorption of such a sizable amount of corporate bonds last year was possible only by appreciably shortening maturities; during 1980, over 40 per cent of publicly offered bonds were intermediate issues and, in order to appeal to investors, there were a number of "split-maturity" issues. Greater resort was made to floating-rate issues as well. And the volume of convertible debentures was more than quadruple the amount offered the year before.

Reacting to the high cost of debt financing and the need to strengthen balance sheets, and in view of a generally receptive stock market, corporations also turned to the equity market last year on a far greater scale than in a number of years; some $11 billion net of funds was raised through the sale of new common and preferred stock, almost triple the amount in 1979.

Household Borrowing Consumer borrowing, by contrast, was reduced last year. The skyrocketing interest rates early in 1980 and again toward year-end brought about a big rise in policy loans from life insurance companies, where the borrowing rate in most cases is 8 per cent or less. But instalment credit balances, which had been growing only slowly, declined by a record amount during the spring, when consumers retrenched after the imposition of the credit controls in mid-March by the Federal Reserve, and credit extensions showed only limited growth later, when the controls were no longer in effect. For all of last year, instalment credit expanded by only $2 billion, the smallest increase in nearly 20 years.

CONSUMER INSTALMENT CREDIT

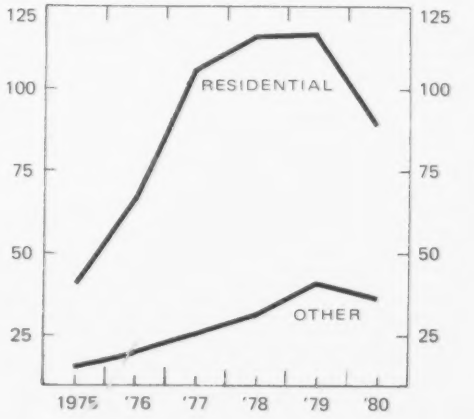
IN BILLIONS OF DOLLARS
SEASONALLY ADJUSTED ANNUAL RATES



The roller coaster movement of interest rates had a very pronounced effect on the residential mortgage market. The record rates on home mortgages, in combination with the squeeze on personal incomes caused by inflation, forced many would-be home buyers out of the housing market early in the year and again during the autumn. As a result of the slower sales of new homes and the accompanying reduction in the turnover of existing houses, there was a much smaller growth—some $27 billion—in home mortgage debt, marking the first time since 1975 that the amount of residential mortgage credit extended did not exceed that of the preceding year.

GROWTH OF MORTGAGE CREDIT

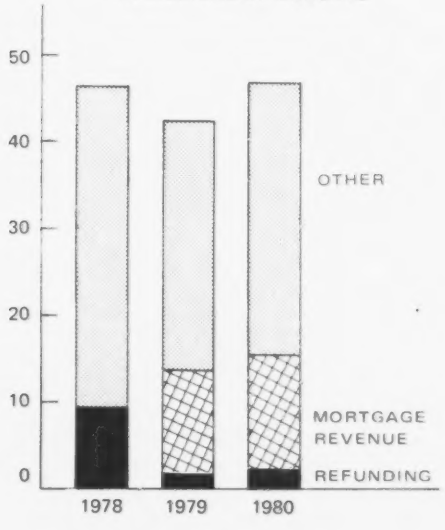
IN BILLIONS OF DOLLARS



Another response to the sky-high interest rates was a slowing in the expansion of commercial mortgage debt, as nonresidential construction activity—shopping centers and other types of commercial building, in particular—slackened. In all, mortgage credit expanded by about $33 billion less in 1980 than in the preceding year.

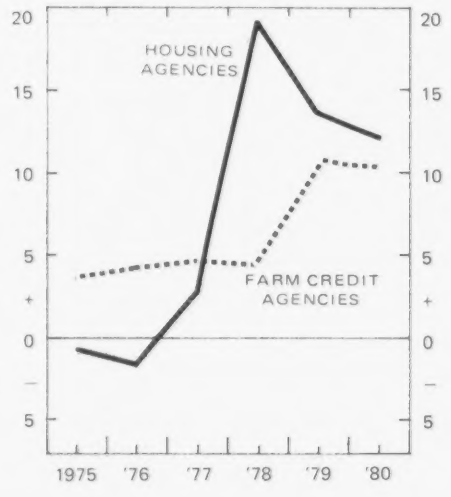
The Municipal Market The volume and pattern of municipal financing was affected last year in a somewhat different manner. When municipal yields reached record levels in March, the pace of new bond offerings slowed, as states and municipalities postponed new issues because of legal restrictions, or because they did not want to incur the record cost of borrowing. After bond yields fell during the spring, municipal bond offerings, like those in the corporate market, nearly doubled. A falloff in new issues occurred again in the autumn when rates moved up sharply, though not to the extent as in the corporate market. An outpouring of tax-exempt housing revenue bonds came to the market toward year-end, as many municipalities rushed to issue these obligations, designed to encourage home-ownership, prior to the January 1981 expiration of the Government's transition rules covering such issues. While not a record, the net amount of municipal financing for the full year 1980 was nevertheless $4 billion greater than in the previous year.

MUNICIPAL BOND OFFERINGS
IN BILLIONS OF DOLLARS



Treasury Activity Contrary to the pattern of most private-sector borrowing, Treasury financing was heavy throughout last year. The record-high interest rates prompted large redemptions of U.S. savings bonds early in the year, and, besides boosting Federal spending, the short-lived recession held down Government tax receipts, thereby giving rise to a budget deficit in fiscal 1980 of $59.6 billion, compared with $27.7 billion the previous year. Consequently, net Treasury borrowing from the public, including for the expanding requirements of the Federal Financing Bank, amounted to $74.5 billion in calendar 1980, $44 billion more than the year before and only $4 billion under the record total in 1975. With the Treasury tapping the full range of maturities, the ongoing large-scale Government borrowing became a major factor in the financial markets.

FEDERAL AGENCY BORROWING
IN BILLIONS OF DOLLARS

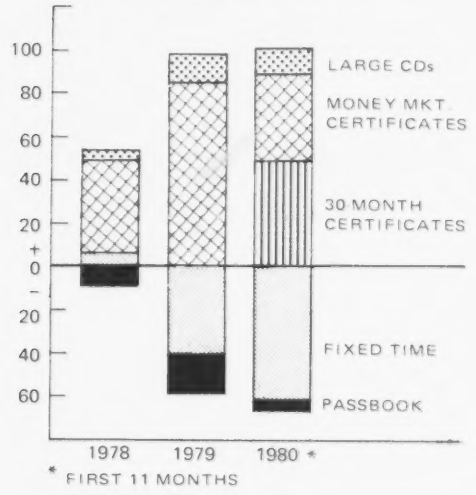


Federal agency financing, too, was again very large. Agency debt expanded by an unprecedented amount during the first half of the year, mostly in support of the residential mortgage market, but also to assist financially squeezed farmers in obtaining credit. While the volume eased off later in the year, the combined borrowings by Fannie Mae, the Federal home loan banks and the Farm Credit Administration amounted to over $22 billion, not greatly below the record totals in 1978 and 1979.

Savings Institutions On the side of the supply of credit, an obvious effect of the high and gyrating

interest rates and rapid inflation—and one that may prove more lasting—was the rapid and sizable shifts in the investment of funds as savers became more sophisticated. The very attractive yields available encouraged the direct purchase of money market instruments or the placing of funds in the still fast-growing money market mutual funds, rather than in savings institutions, when rates were rising, although not to the degree that occurred in previous periods of sharply rising interest rates; the mutual savings banks and credit unions, in fact, had considerably larger deposit flows last year than the year before. When rates declined, the thrift institutions did not experience the strong and sustained inflows of funds that they have normally enjoyed during business downturns.

SAVINGS ACCOUNT FLOWS
SAVINGS AND LOAN ASSOCIATIONS
IN BILLIONS OF DOLLARS



The bulk of the funds garnered by the thrifts, moreover, were high-cost funds obtained through the issuance of 6-month money market certificates and the new 30-month certificates, first offered in January of last year, as depositors continued to shift out of passbook accounts into the much higher interest-paying accounts. The savings and loan associations, which were most aggressive in competing for funds, saw their outstanding money market, 30-month and jumbo (over $100,000) certificates rise from roughly one-third of total deposits at the end of 1979 to over one-half at the end of 1980. As a result, interest credited came to represent a significant proportion of the total deposit growth at the savings institutions, and, in so doing, intensified the squeeze on their earnings. The profit squeeze reached a point where a number of S&Ls were forced to sell assets and many had to be merged.

Under these circumstances, not surprisingly, the thrift institutions were reluctant early in the year and again toward the end of 1980 to make new mortgage commitments, and many invested their high-cost funds in bank CDs and other liquid assets rather than in mortgage loans. At the same time, in an effort to protect against further inflation and wide interest rate fluctuations, greater use was made by the savings institutions of new types of mortgage contracts—renegotiable and variable rate mortgages, graduated payment, balloon payment and equity participation mortgages.

Other Major Investors Because of the jump in their policy loans early last year, and deferrals of some contributions by pension funds, the life insurance companies likewise cut back on making commitments for mortgages, as well as private placements, and gave more weight to acquiring liquid assets. When making new commitments, the life companies moved toward much shorter maturities and increasingly insisted on equity "kickers" or other forms of protection against inflation and high interest rates. In sum, their new investment in corporate bonds was well below the total the year before.

The high and gyrating interest rates, and underwriting losses caused by the rampant inflation and the resulting earnings squeeze, also prompted significant changes in the investment policies of the fire and casualty companies. Not only was their need for tax-exempt income reduced, but because of the greater reluctance to be locked into long-term fixed investments, they acquired commercial paper for the first time on any scale.

Anotner noteworthy outgrowth of the volatile interest rate climate last year was that finance companies, which cut back sharply on their lending to business, dominated the instalment credit market for the first time in a great many years. They captured a larger share of automobile credit and expanded their activity in second mortgages. Because of the usury ceilings, the credit unions were forced to reduce their consumer lending activity and, for the same reasons and also because

of the controls imposed on consumer credit, commercial banks pulled back on their instalment lending to a considerable degree.

Bank Credit Although the growth of total commercial bank credit in 1980 was smaller than the year before, primarily because of the big cutback in consumer and mortgage lending, the expansion of bank loans overall was nonetheless quite large for a year characterized by recession. At the same time, the banks added considerably more to their securities holdings than in the preceding year, with sizable acquisitions of tax exempts, Governments and agencies. With their demand deposits showing almost no growth at all, early in the year and again in the latter months the banks, especially the large money center banks, had to bid aggressively for funds—CDs, Fed funds and RPs, and 6-month money market certificates—in order to satisfy the strong business demands for credit.

Finally, the ability of the money and capital markets to absorb the increased volume of financing last year, especially the huge amount of Treasury and agency offerings and the new corporate and tax-exempt bond issues, was due in large measure to heavy buying by the investment companies, including the newly established tax-exempt money market funds, by foreigners and by individuals and investors other than the major institutions. Foreign buyers, surprisingly, not only provided strong support to the U.S. bond and stock markets, but apparently absorbed a good portion of the foreign bonds traded in our market as well.

1981 ECONOMIC ENVIRONMENT

Just as the pattern of credit demands and financial flows in 1980 was clearly influenced by the inability to rein in the rapid inflation and by the relatively sluggish, but highly uneven, pace of business activity, so will economic events importantly shape developments in the money and capital markets this year. The financial projections in the accompanying tables are based on the following assumptions.

Economy in General Even though business activity entered this year on an upbeat, it seems doubtful, in view of the extremely high interest rates, that some weakening in the economy can be avoided between now and the spring. The pace of economic activity is then expected to pick up again by midyear in response to a decline in interest rates and the enactment of a tax cut, but growth will still be comparatively slow. For the full year, real GNP is assumed to rise by 1 per cent or so. In this environment, corporate profits are seen as registering a limited gain—probably under 5 per cent.

Notwithstanding such a slow-paced recovery, the outlook is for sustained upward pressures on prices because of the rising cost of energy and higher service and labor costs, while productivity doubtless will continue to lag. Consequently, the broadest measure of inflation—the GNP deflator—is likely to remain in the 10 per cent range throughout the year. Equally important from the standpoint of the money and capital markets, inflationary expectations will still be a major factor influencing borrowing and investment decisions during most, if not all, of 1981.

Credit-Sensitive Areas The expectations for the major credit-using sectors of the economy are, in brief:

- **New-car sales**, including imports, will be up about 7 per cent and total 9½ million units, with the increase in dollar outlays somewhat larger due to higher prices.

- **Housing starts** are put at 1.45 million units, roughly 12 per cent more than last year, but again with dollar outlays up somewhat more because of the anticipated greater rise in housing prices.

- **Business inventories**, at book value, are seen as increasing by around $46 billion, or approximately 10 per cent more than last year, despite the slow economic growth and the tight inventory control being practiced by most company managements.

- **Capital spending** is projected to rise 8 per cent in dollar terms, or somewhat less than the rise in 1980, with total outlays by manufacturing companies likely to show a larger percentage gain than nonmanufacturing.

Fiscal Picture Developments in the fiscal area will also have considerable influence on the behavior of the credit and capital markets in 1981, not only because of the direct impact of Government financing requirements, but because the size

and direction of the budget deficit can have an effect on market psychology. Estimates of Federal expenditures in the current fiscal year and in fiscal 1982 are more tenuous than usual, owing to the uncertain effects of inflation, the rapidly changing interest rates and the yet-to-be-determined increase in defense outlays; and the same is true of Treasury receipts, in view of the uncertainty surrounding the anticipated tax cut.

The assumption here is that the new Administration will not be able to slow Government spending by any meaningful amount this fiscal year, which was almost one-third over when Mr. Reagan took office. Rather, and despite strong opposition from various pressure groups, some restraint will be placed on budget expenditures in fiscal 1982. It is further assumed that the tax cut will not be fully effective before July 1, though it may be enacted sooner. Accordingly, we are projecting a budget deficit for the calendar year 1981 in the range of $65 billion.

Monetary Policy The expectation with respect to monetary policy is first that it will be generally steadier than in 1980. In addition, it is assumed that even though business activity may soften for a while, the Federal Reserve, as it has indicated, will keep a tighter rein on the growth of the monetary aggregates than in the year just past, since it will once more have to shoulder most of the burden of fighting inflation. This is consistent with an expansion of bank credit of around 8½ per cent, not far different from last year.

1981 DEMAND-SUPPLY PICTURE

Unless the weakening in business activity turns out to be greater than is now expected, overall financing needs in 1981 will be noticeably larger than last year, if only because of the prospective double-digit increase in prices and costs. In the private sector, consumer credit almost surely will register a much bigger rise, and residential mortgage debt is projected to expand considerably more, with the same being true of commercial mortgage debt. The volume of corporate bond financing will again be substantial, while the amount of equity financing by business should be bigger than in 1980. As for the public sector, Treasury borrowing is seen as exceeding last year's total, and the amount of both Federal agency financing and municipal borrowing will probably again be large.

Taken altogether, the total of funds raised in 1981 is here projected to amount to just under $397½ billion, some $42 billion, or 12 per cent, higher than last year. While this is not as big an increase in financing in percentage terms as usually occurs after a year of recession, it should be noted that the cutback in borrowing last year in response to the business downturn also fell short of the typical pattern.

On the supply side of the credit and capital markets, it is significant to note that the changes which can be foreseen are mixed as well. The savings institutions, as a group, should have more funds to invest than in 1980. Conversely, the growth of the money market funds is not expected to come close to matching the $35 billion back-to-back gains of the past two years. The pension funds will have a greater amount of money to put to work, but the new funds available for investment by insurance companies—life companies, and fire and casualty alike—will not match those of last year. Important, too, is that the expansion of commercial bank credit, at $102 billion, is projected to be not much greater than the roughly $96 billion in 1980.

Since business corporations will be rebuilding liquidity, they should be more active investors this year than last. And foreign investors are expected to play an even more supportive role in the U.S. financial markets in 1981. Still, this analysis suggests that purchases by "residual" investors—individuals and investors other than the major institutions—must be at least as large as in the year just past if the increased volume of securities projected to be offered is to be absorbed.

Short-Term Credit One important financing change foreseen this year is that, even though the economy is comparatively sluggish through the first half, demands for short-term credit will be much larger than last year, and the pattern will be different. After the sharp cutback in 1980, consumer credit should expand by a considerably greater amount, reflecting the increased level of new-car sales at higher prices, some step-up in buying of other big-ticket durable goods and a return to more normal usage of credit cards. Moreover, consumer lenders, notably the commercial banks and credit unions are likely to be more aggressive in the promotion of instalment loans, now that the usury ceilings have been lifted in a number of states. Consumer credit—instalment and

noninstalment together—is therefore projected to grow by $23½ billion, over $20 billion more than in 1980. Borrowing by individuals against their life insurance policies is expected once more to be very large, though below the record last year.

Short-term borrowing by business corporations, on the other hand, is likely to be less than last year, given the greater growth in internally generated funds as a result of the expected change in tax rates and depreciation allowances. At the same time, many corporations will be moving to restructure their balance sheets and will be reverting to long-term financing. Still, even with corporate cash flow rising faster and managements practicing careful financial control, most companies will require a good deal of short-term financing for working capital to cover inflation-swollen inventories and other operating needs. Borrowings from finance companies this year should be much larger because of more automobile dealer floor planning. And trade credit will almost surely increase somewhat with a higher level of business activity.

Corporations that have access to the commercial paper market will undoubtedly continue to make active use of this means of financing, but not to the extent that they did last year, while short-term borrowing by business from banks is expected to be cut back somewhat more. Altogether, financing by corporate and noncorporate business combined is projected at about $19 billion, down $5½ billion. Overall, however, the amount of short-term funds raised is put at approximately $90 billion, an increase of $18 from 1980's reduced total.

The Capital Markets The long-term debt markets, too, will be busier than in the year just past. Since capital spending will be rising—in dollar terms at least—and since no headway was made last year by corporations toward shoring up depleted liquidity positions and returning debt ratios to more comfortable levels, 1981 promises to be another year of heavy corporate bond financing. Rebuilding liquidity, though, will not prove as easy this time around as after the 1974-75 recession, and some of the huge demand for long-term funds is expected to be satisfied through term loans from commercial banks. Still, business corporations are seen as issuing nearly as large a volume of bonds this year as the record last year.

Most small and medium-sized industrial firms are in need of long-term funds, and many large companies which see their capital needs growing probably will go into the bond market, despite the relatively high borrowing costs. AT&T has indicated it will need to raise about $1 billion less new money in the long-term debt market this year because of new depreciation schedules and recent and prospective rate increases. But the highly capital-intensive public utilities will continue to seek long-term funds on a big scale. Thus, as a group, business corporations are projected to issue $31.5 billion net of new bonds, only $1 billion under the 1980 figure.

SHORT-TERM VS. LONG-TERM DEBT
MANUFACTURING CORPORATIONS
IN PER CENT

Similarly, financial concerns, taken together, are seen as floating only a slightly smaller volume of bonds this year. Savings and loan associations, in all probability, will raise more funds through the sale of mortgage-backed bonds. Commercial banks and their affiliates are likely to offer somewhat more bonds in order to strengthen capital positions and promote future growth. And new issues by finance companies should be about unchanged. Consequently, net new corporate bond financing in total is projected at just short of $40 billion, about $1½ billion under 1980. The current high cost of financing will probably delay some bond offerings for a while, but activity will pick up substantially once bond yields ease. Like last year, in order to appeal to investors, a substantial portion of the new issues will carry intermediate maturities and more will probably take the form of convertible debentures.

Adding to Equity Corporations are also expected to turn to the sale of common and preferred stock in larger measure in raising long-term funds, unless the stock market becomes highly unreceptive. Besides redressing capital structures, many business managements are concerned with holding down the fixed cost of debt service. Industrial companies and the utilities are both expected to do more stock financing this year and so are commercial banks. At the same time, fewer stock issues will be retired, since corporate merger and acquisition activity will more than likely be less than in 1980. It would not be surprising, therefore, to see as much as $13 billion of net new money raised in the equity market, some $2¼ billion more than last year and more than double the 1979 figure.

Municipal Offerings The volume of municipal bond financing gives every indication of again being quite large as well, even though there clearly is a climate of restraint regarding state and local government expenditures. Some deferments of bond issues were reported late in 1980 and the effects of inflation will continue to push up the cost of financing new construction programs. Last November's elections resulted in a relatively high level of new bond approvals, especially for conservation and recreational projects. And the volume of industrial revenue bonds will undoubtedly again be large. Still, last year's volume of housing revenue bonds is not likely to be repeated now that the new Federal restrictions on such issues are in effect. Accordingly, we are projecting the net new issuance of tax-exempt bonds in 1981 at a shade under $24 billion, slightly below the total last year. While the volume of tax-exempt note financing will probably again be heavy, because of the rapid turnover of shorter maturities the net increase is not expected to be up by much.

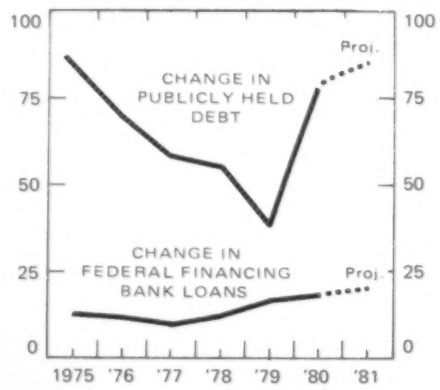
Mortgage Debt Even though home building is starting off the year under a cloud, the volume of residential mortgage financing almost certainly will expand by a far larger amount than in 1980. Besides the expected higher level of housing starts, the greater availability and reduced cost of mortgage money, the anticipated tax reduction and improving business conditions as the year progresses should result in a pickup in sales of existing houses. The continuing uptrend in housing prices and land costs will also tend to expand home mortgage credit. And with some easing in market conditions, an increase in mortgage financing for purposes other than housing may occur. Therefore, residential mortgage debt is projected to expand by close to $105 billion, $14 billion more than last year.

The demand for commercial mortgage credit should increase as well, inasmuch as office building and hotel construction are still strong. In addition, the growth of farm mortgage debt is expected to exceed that of last year; farm income is up, and the demand for agricultural equipment and farm land can be expected to strengthen. As a result, the net expansion of mortgage credit in total is placed at $143 billion, some $18 billion above last year's figure.

The Government's Requirements The size of the Government's borrowing requirements will again be one of the more crucial developments affecting the money and capital markets as it was in 1980. Indeed, one of the biggest uncertainties facing financial analysts in looking ahead this year is the possibility of again understating the Treasury's financing needs. Not only could the Federal deficit be higher than is here estimated in view of what has been happening to Government spending in recent months, but the needs of the Federal Financing Bank are growing and may be larger than is generally assumed, even though strong efforts evidently will be made by the new Administration to restrain off-budget financing.

TREASURY FINANCING

IN BILLIONS OF DOLLARS



As things stand, we estimate that the Government will be in the market for about $80 billion in calendar 1981, up from $74.5 billion last year and a

record that exceeds the borrowing in 1975. This implies that Government financing will be heavy throughout this year, with the Treasury, as last year, actively tapping all sectors of the money and capital markets.

The financing needs of the federally sponsored agencies may well be moderated, but they, too, give every indication of again being large. The Federal home loan banks should be borrowing a good deal less because the S&Ls will not be relying as heavily on FHLB advances for funds, and Fannie Mae's financing also will probably not match that of last year because the thrift institutions presumably will be supplying more funds to the residential mortgage market. On the other hand, the Farm Credit Administration is projected to raise an estimated $11¾ billion in the credit and capital markets in 1981, about $1¼ billion more than they raised last year.

1981 INVESTMENT PATTERNS

Given the changes already seen in the patterns of investment and in private and public sector financing, it can reasonably be anticipated that, despite ongoing inflation, the need to rebuild liquidity and concern over the wide swings in interest rates, some typical cyclical shifts in investment policies and practices will take place moving through 1981, the most notable being a tendency to lengthen portfolios.

Thrift Institutions Deposit flows to the thrift institutions are expected to increase during the course of this year as the relative attractiveness of direct investments in marketable securities or in the money market funds begins to dim, though the growth in savings deposits is not likely to be large. Yet, the substantial amount of interest credited, because of the sizable volume of 6-month and 30-month certificates already issued, and the continuing high cost of obtaining new deposits promise to keep the earnings of the thrift institutions under pressure, and managements, accordingly, can be expected to be slow to change their current cautious lending posture. The savings institutions, especially the credit unions, are therefore likely to add further to their liquid asset holdings, Government securities in particular. Nevertheless, all of the thrifts—the savings and loan associations, mutual savings banks and credit unions—are expected to be more active this year in the residential mortgage market and in consumer instalment lending, the more so since they have recently acquired broader powers in this area.

Insurance Companies The record rise in policy loans last year, together with the more rapid growth in benefit payments and expenses than in premium receipts, is making life insurance company managements unusually careful about making new investment commitments. Still, the life companies are projected to add slightly more to their corporate bond portfolios, mainly public issues; in making private placements, they will no doubt increasingly insist on equity participation or some other forms of protection. Reflecting this desire for protection against inflation, the life companies can also be expected to do more outright purchasing of real estate. Though they are seen as adding to their mortgages on income producing properties, in more and more cases where commercial mortgages are acquired they can be expected to share in the rentals or obtain other features aimed at reducing risk. Elsewhere, the life companies are expected to be cutting back on their acquisitions of residential mortgages, but they will probably acquire more common stock than in the past years.

Another year of reduced cash flow and squeeze on earnings is in store for the fire and casualty insurance companies because of the continuing increase in claims and expenses caused by the rapid inflation, the resulting lag in premium income stemming from intense rate competition and the slow granting of rate relief by the regulatory commissions. As a result, fire and casualty companies will make some changes in their investment policies. Most important will be a further reduction in their takings of tax-exempt securities; on balance, they are projected to purchase fewer municipal bonds than at any time since 1976. On the other hand, they should step up their acquisitions of both corporate bonds and Government securities, but will be reversing the pattern of last year and cut back on purchases of commercial paper. In addition, the fire and casualty companies will probably show about as much interest in the stock market as they did in 1980.

Pension Funds The private noninsured pension funds, unlike the insurance companies, will have considerably more funds to invest this year, and are likely to adhere closely to the investment pattern they followed in 1980, though they, too, are expected to be extending maturities in their

portfolios. Despite the disappointing performance of most bond portfolios last year, pension fund portfolio officers are seen to be somewhat larger buyers of corporate bonds. Similarly, they are projected to acquire more common stock, twice as much in fact as corporate bonds, in order to maintain a balanced portfolio policy approach. For this same reason, the private pension funds will probably purchase more GNMA securities, and they may well be larger buyers of Government securities than at any time since 1975, primarily because of the ease with which the securities can be traded, since the pension funds are turning over their portfolios faster. Consequently, they will probably acquire less commercial paper and place a smaller amount of funds in CDs than they did in 1980.

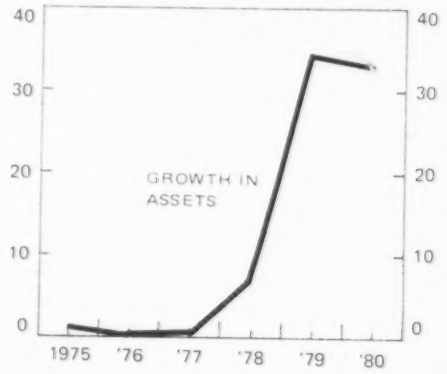
The state and local government retirement funds, while continuing to broaden their range of investments, in all probability will follow an investment strategy not far different from last year, except that more funds will probably be placed in permanent investments. They are expected to place much more money in corporate bonds, notwithstanding the rapid inflation, and they will undoubtedly show greater interest in the stock market. Somewhat more of their funds may be invested in mortgages, generally through the purchase of pass-through securities. And the state and local retirement funds are seen as acquiring a significant amount of Government and agency securities.

The state and local general funds are also expected to add more to their Government portfolios. They will probably be even more active in the mortgage area because of the continuing emphasis on aid to housing and because a substantial amount of funds raised late in 1980 to aid home building was in escrow at year-end and will gradually be moved into mortgages as 1981 progresses.

Investment Companies Taken as a group, the investment companies are seen as channeling far less into the money and bond markets than the record volume of more than $40 billion last year. Although public interest in these funds as an investment vehicle clearly is firmly established, after two back-to-back years of huge growth it is unlikely that the money market funds will continue to expand as fast. The money market funds, accordingly, are expected to reduce their takings of short-term investments—open market paper, Government and agency securities and CDs. Likewise the municipal bond funds, including the limited maturity funds and unit investment trusts, are not expected to match their strong performance of last year, although they may still provide nearly $7 billion to the municipal market in 1981. Mutual equity funds, however, are seen as net purchasers of common stock for the first time in a decade; the public showed a positive interest in such funds last year and, in addition, there is some overhang of funds from 1980 yet to be invested in equities.

GROWTH OF MONEY MARKET FUNDS

IN BILLIONS OF DOLLARS



Commercial Banks The growth of commercial bank credit this year is projected to exceed that of last year by some $6 billion, but the pattern will differ in several important respects. While business loans, on balance, will not expand quite as much, consumer and mortgage lending, which were cut back appreciably in 1980, should increase much more than in 1980. The banks are seen as again being substantial buyers of Government and agency securities, but not quite the volume of last year. Similarly, their acquisitions of municipal securities are likely to fall somewhat short of the record taken in 1980; some banks will not have as much need for tax-exempt income, while many will be stressing other means of obtaining tax-exempt income, such as through leasing.

MARKET IMPLICATIONS

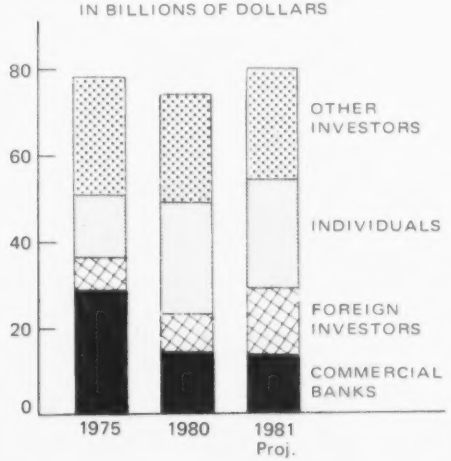
These accompanying projections of credit demands and of the available sources of investible funds do not point to undue tightness in the credit and capital markets in 1981, but they certainly do not imply an early return to easy financial conditions.

Major Sectors Only a moderate increase in the amount of financing is anticipated, but on the supply side institutional investors clearly have lost interest in straight fixed-income obligations because of the rapid inflation and the widely fluctuating interest rates. Having taken big losses in their corporate bond portfolios, most investors, the life insurance companies in particular, are sure to be wary; bond purchases, in some cases, are being made more for trading than with the intention of holding permanently. This being the case, the corporate market may not find smooth sailing at times. Similarly, the municipal bond market may not be all that comfortable throughout the year, given that two of its recent mainstays—the fire and casualty companies and commercial banks—cannot be counted on to provide as much support.

A like conclusion emerges with regard to the mortgage markets for income-producing properties and residential financing. As with the bond market, these markets are undergoing a fundamental change. The life companies and thrift institutions are primarily concerned with reducing risk, and both are reluctant to make long-term commitments until they can get a clearer sighting on the course of inflation and interest rates, the more so in the case of the thrifts because of their earnings plight. Consequently, the mortgage markets will probably be under pressure for some time.

FINANCING THE TREASURY DEBT

IN BILLIONS OF DOLLARS



Another broad conclusion that emerges from this analysis of credit and capital market demand-supply factors relates to the Government securities market. The indication here is that, even with larger purchases by foreign buyers, this market will once again require very active participation by individuals and investors other than the major institutions to absorb the record amount of Treasury offerings in sight for 1981.

Impact on Interest Rates The implications of these projections for interest rates will, of course, depend importantly on the path taken by the economy. With a slowing in the pace of economic activity in the months ahead, business demands for short-term credit should ease for a time. This, together with the efforts of corporations and others to rebuild liquidity, will put downward pressure on money market rates until there are signs of a pick-up in business activity. A decline in money market rates, in turn, will tend to push down bond yields by prompting investors to extend the maturity of their portfolios.

The room for declines in both money market rates and long-term yields, however, would seem limited. The Federal Reserve in its effort to reduce inflation is committed to holding down the expansion of the money supply, and the authorities have indicated their intention to adhere to a slower growth target. Also, the Fed has made it clear it does not want to see last year's highly unsettling interest rate pattern repeated. At the same time, a high floor is placed under bond yields by the large volume of financing in prospect.

Inflation Psychology Moreover, in appraising the outlook for interest rates, considerable weight must be given to changes in the expectations of lenders and investors concerning inflation; over the past year, shifts in inflationary expectations have had a far greater influence on interest rate movements than demand-supply factors. The lack of progress in curbing the rapid cost-price spiral during the sharp, albeit brief, downturn in business activity last year served to undermine the confidence of financial market participants, as has the deterioration recently in the Federal fiscal position. Unless prompt and meaningful cuts in nondefense spending are made by the new Reagan Administration, and unless the proposed tax cuts are contained so that the fiscal 1982 budget deficit will be materially reduced, inflation psychology will be the overriding factor. In such an environment, interest rates, particularly bond yields, not only will have to stay elevated to attract investors, but they will remain very volatile.■

TABLES ON THE SOURCES AND USES OF FUNDS

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Technical Note to Tables

The summary tables 1, 2 and 3 include in "total uses" only funds raised by the nonfinancial sectors. Funds raised by financial intermediaries, whether through marketable instruments or by bookkeeping entries, have been excluded. "Total gross sources" also shown in these tables does include funds provided to the financial intermediaries through the credit markets; however, these funds are then deducted in order to arrive at "total net sources."

The financial intermediaries include insurance companies, pension funds, thrift institutions, investment companies, finance companies, real estate investment trusts, commercial banks and nonbudget Federal credit agencies. The proliferation of these financial intermediaries and their increasing financing through the use of marketable debt and equity instruments have pointed up their important role in channeling credit into alternative uses. These activities do not, however, add to the total available supply of, or the total demand for, credit.

When financial intermediaries raise funds in various markets, they obviously compete with the nonfinancial sectors for the available supply. In order to take full account of pressures in these markets, total funds raised shown in the tables dealing with specific markets, i.e., corporate stock, corporate bond, open market paper and Federal agency, include funds raised by the financial intermediaries.

SUMMARY OF FINANCING — TOTAL FUNDS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Investment funds	119.3	143.9	192.6	219.7	228.7	210.0	228.2
Short-term funds	2.7	58.6	94.8	125.1	121.0	71.1	89.3
U.S. Government and budget agency securities, privately held	78.1	59.4	51.5	46.8	29.9	74.3	79.9
Total uses	200.1	261.9	338.9	391.6	379.7	355.4	397.4
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	19.0	26.7	29.4	33.7	33.6	34.3	32.6
Private noninsured pension funds	14.1	12.5	16.5	16.0	22.8	25.3	28.3
State and local retirement funds	11.5	12.4	13.9	14.9	19.6	23.9	28.2
Fire and casualty insurance companies	6.0	12.4	19.2	19.2	17.3	17.0	16.7
Total	50.6	64.1	79.0	83.8	93.4	100.5	105.8
Thrift institutions							
Savings and loan associations	36.6	51.9	64.9	57.1	49.7	43.1	51.7
Mutual savings banks	10.9	12.5	11.7	7.9	3.8	5.5	7.9
Credit unions	5.0	6.6	8.2	8.3	2.4	3.5	6.6
Total	52.5	71.1	84.8	73.4	55.9	52.1	66.2
Investment companies	3.1	1.4	2.9	5.2	22.1	24.4	18.5
Other financial intermediaries							
Finance companies	2.0	8.3	16.2	17.7	21.0	8.8	13.3
Mortgage companies	1.2	2.7	3.0	2.8	.7	—2.1	- -
Real estate investment trusts	—4.8	—3.8	—2.4	—1.0	—.3	- -	- -
Total	—1.6	7.2	16.8	19.5	21.4	6.7	13.3
Commercial banks	31.5	66.3	89.9	125.9	120.3	96.5	102.3
Business							
Business corporations	12.4	14.9	11.4	9.7	14.6	12.7	21.3
Noncorporate business	.8	1.4	1.6	1.6	1.7	1.0	1.0
Total	13.2	16.3	13.0	11.3	16.3	13.7	22.3
Government							
U.S. Government	6.2	— .8	2.0	3.2	6.3	6.2	6.2
Nonbudget agencies	6.6	6.9	2.8	13.5	19.7	16.8	16.3
State and local general funds	8.6	8.8	8.2	15.2	6.0	13.3	15.2
Total	21.4	14.9	13.0	32.0	32.1	36.3	37.7
Foreign investors	10.4	17.9	42.1	40.1	—4.9	20.8	28.0
Individuals and others	24.3	17.9	25.9	47.7	73.8	41.6	43.1
Total gross sources	205.4	277.1	367.4	438.9	430.3	392.6	437.2
Less: Funds raised by financial intermediaries							
Investment funds	4.4	8.2	10.9	9.0	10.0	10.5	10.3
Short-term funds	— .8	5.0	11.6	14.4	17.1	4.3	10.2
Nonbudget agency securities, privately held	1.8	2.0	.6.0	23.9	23.6	22.4	19.3
Total	5.3	15.2	28.5	47.3	50.7	37.2	39.8
Total net sources	200.1	261.9	338.9	391.6	379.7	355.4	397.4

SUMMARY OF FINANCING — INVESTMENT FUNDS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Corporate securities							
Bonds	27.2	22.8	21.0	20.1	21.2	32.5	31.5
Stocks	10.7	10.0	2.7	2.6	3.5	9.0	11.0
Total	37.9	32.8	23.7	22.7	24.7	41.5	42.5
State and local securities	16.1	15.7	23.7	28.4	22.4	26.3	24.5
Real estate mortgages	57.2	87.1	134.0	149.0	158.6	125.3	143.0
Foreign securities	6.5	9.1	5.5	3.5	4.8	3.9	3.7
Term loans							
Commercial banks	1.3	—1.2	5.2	15.7	17.7	12.5	14.0
Banks for cooperatives	.3	.5	.5	.4	.6	.5	.5
Total	1.6	—.7	5.7	16.1	18.3	13.0	14.5
Total	119.3	143.9	192.6	219.7	228.7	210.0	228.2
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	15.1	23.6	26.3	28.4	25.9	24.0	25.0
Private noninsured pension funds	11.8	11.3	13.5	15.2	19.4	20.5	23.1
State and local retirement funds	9.8	9.6	10.2	9.5	13.3	16.7	19.6
Fire and casualty insurance companies	3.3	9.0	15.7	18.3	16.1	12.5	12.7
Total	40.0	53.5	65.7	71.5	74.7	73.7	80.4
Thrift institutions							
Savings and loan associations	32.6	47.0	60.7	55.7	48.6	36.4	46.5
Mutual savings banks	7.8	10.3	11.1	8.8	4.2	2.8	4.3
Credit unions	.1	.9	1.8	.5	.4	.3	.5
Total	40.5	58.2	73.6	65.0	53.1	39.5	51.3
Investment companies	2.6	1.9	2.2	.9	2.2	6.8	8.5
Other financial intermediaries							
Mortgage companies	1.2	2.7	3.0	2.8	.7	—2.1	--
Real estate investment trusts	—4.8	—3.8	—2.4	—1.0	—.3	--	--
Total	—3.6	—1.1	.6	1.8	.4	—2.1	--
Commercial banks	8.9	16.4	43.8	61.5	60.7	45.7	46.7
Business corporations	—.2	—1.1	--	.2	--	—.1	--
Government							
U.S. Government	6.2	—.8	2.0	3.2	6.3	6.2	6.2
Nonbudget agencies	5.6	3.4	4.0	12.6	15.0	13.1	12.7
State and local general funds	4.0	3.7	.8	3.6	4.4	9.5	11.2
Total	15.9	6.3	6.7	19.4	25.7	28.8	30.1
Foreign investors	5.3	3.1	3.5	2.7	1.7	5.5	5.5
Individuals and others	14.2	14.9	7.4	5.6	20.3	22.7	16.0
Total gross sources	123.7	152.1	203.5	228.7	238.7	220.5	238.5
Less: Funds raised by financial intermediaries							
Bonds	4.7	7.1	10.0	7.5	7.8	8.7	8.3
Stocks	—.3	1.1	.9	1.5	2.2	1.8	2.0
Total	4.4	8.2	10.9	9.0	10.0	10.5	10.3
Total net sources	119.3	143.9	192.6	219.7	228.7	210.0	228.2

SUMMARY OF FINANCING — SHORT-TERM FUNDS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Open market paper	—2.3	6.0	5.3	12.0	22.1	20.7	20.4
Consumer credit	9.7	26.1	41.5	50.9	41.7	2.5	23.5
Policy loans	1.6	1.4	1.7	2.6	4.7	7.4	5.0
Loans of nonbudget agencies	1.3	1.8	1.3	1.3	4.7	2.9	3.6
Bank loans to business	—9.8	6.1	19.3	24.8	33.8	24.6	19.3
Other bank loans	- -	5.9	5.4	15.1	1.7	10.0	6.5
Other business credit							
Net trade credit	.1	5.9	10.0	10.1	5.4	4.0	6.0
Finance company loans	2.1	5.4	10.3	8.3	7.0	—1.0	5.0
Total	2.2	11.3	20.3	18.4	12.4	3.0	11.0
Total uses	2.7	58.6	94.8	125.1	121.0	71.1	89.3
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	2.2	1.6	1.6	3.7	6.0	9.1	6.6
Private noninsured pension funds	—1.5	—1.0	.3	.8	1.0	1.3	1.0
Fire and casualty insurance companies	- -	- -	- -	- -	- -	3.0	1.5
Total	.7	.6	1.9	4.5	7.0	13.4	9.1
Thrift institutions							
Savings and loan associations	1.4	1.6	1.5	1.7	2.5	4.3	3.5
Mutual savings banks	.3	.7	.5	.1	.3	1.0	1.6
Credit unions	3.8	5.5	6.4	8.3	2.2	—4.7	1.5
Total	5.5	7.8	8.4	10.1	5.0	.6	6.6
Investment companies	—.3	—.7	.8	3.9	15.8	12.6	7.0
Finance companies	2.0	8.3	16.2	17.7	21.0	8.8	13.3
Commercial banks	—7.2	30.6	49.2	65.4	53.2	27.2	36.6
Business							
Business corporations	3.9	13.7	17.5	15.8	17.4	12.6	18.8
Noncorporate business	.8	1.4	1.6	1.6	1.7	1.0	1.0
Total	4.7	15.1	19.1	17.4	19.1	13.6	19.8
Nonbudget agencies	1.3	1.8	1.3	1.3	4.7	2.9	3.6
Foreign investors	—2.6	2.7	4.4	7.9	6.9	4.0	5.5
Individuals and others	—2.3	—2.6	5.1	11.3	5.3	—7.7	—2.0
Total gross sources	1.9	63.6	106.4	139.5	138.1	75.4	99.5
Less: Funds raised by financial intermediaries							
Open market paper	.8	2.1	9.7	14.5	18.4	5.5	8.6
Financial bank loans	—1.6	2.9	1.9	—.1	—1.3	—1.2	1.6
Total	—.8	5.0	11.6	14.4	17.1	4.3	10.2
Total net sources	2.7	58.6	94.8	125.1	121.0	71.1	89.3

U.S. GOVERNMENT AND AGENCY SECURITIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
U.S. Government and budget agency securities, privately held							
U.S. Government securities	78.4	60.1	52.1	48.0	30.9	74.5	80.0
Budget agency securities	—.3	—.7	—.6	—1.2	—1.0	—.2	—.1
Total	78.1	59.4	51.5	46.8	29.9	74.3	79.9
Nonbudget agency securities, privately held	1.8	2.0	6.0	23.9	23.6	22.4	19.3
U. S. Government and agency securities, privately held	79.9	61.4	57.5	70.7	53.5	96.7	99.2
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	1.7	1.5	1.6	1.7	1.8	1.2	1.0
Private noninsured pension funds	3.7	2.1	2.7	—.1	2.4	3.5	4.2
State and local retirement funds	1.7	2.8	3.7	5.4	6.3	7.2	8.6
Fire and casualty insurance companies	2.7	3.4	3.5	.9	1.2	1.5	2.5
Total	9.8	9.9	11.5	7.9	11.7	13.4	16.3
Thrift institutions							
Savings and loan associations	2.6	3.3	2.7	—.3	—1.4	2.4	1.7
Mutual savings banks	2.8	1.6	.1	—1.0	—.6	1.7	2.0
Credit unions	1.1	.3	—.1	—.5	—.3	7.9	4.6
Total	6.5	5.1	2.8	—1.8	—2.4	12.0	8.3
Investment companies	.8	.2	—.1	.4	4.1	5.0	3.0
Commercial banks	29.8	19.3	—3.1	—1.0	6.4	23.6	19.0
Business corporations	8.7	2.3	—6.1	—6.3	—2.8	.2	2.5
Government							
Nonbudget agencies	—.3	1.7	—2.5	—.4	.1	.8	--
State and local general funds	4.6	5.1	7.4	11.6	1.6	3.8	4.0
Total	4.3	6.8	4.9	11.2	1.7	4.6	4.0
Foreign investors	7.6	12.2	34.2	29.5	—13.5	11.3	17.0
Individuals and others	12.3	5.6	13.4	30.8	48.2	26.6	29.1
Total	79.9	61.4	57.5	70.7	53.5	96.7	99.2

U.S. GOVERNMENT SECURITIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
U.S. Government debt, publicly held	85.8	69.1	57.6	55.1	38.8	78.3	85.0
Less: Holdings of Federal Reserve banks	7.4	9.0	5.5	7.1	7.8	3.8	5.0
U.S. Government debt, privately held	78.4	60.1	52.1	48.0	30.9	74.5	80.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	1.4	.6	—.1	—.5	.1	.2	.2
Private noninsured pension funds	3.4	1.6	2.1	—.1	1.4	3.0	3.8
State and local retirement funds	1.0	2.0	2.3	4.2	4.0	4.5	5.2
Fire and casualty insurance companies	2.5	3.1	3.2	.9	1.2	1.1	2.0
Total	8.3	7.3	7.6	4.5	6.7	8.8	11.2
Thrift institutions							
Savings and loan associations	1.8	2.7	1.4	—1.7	—1.5	1.8	1.0
Mutual savings banks	2.2	1.0	.1	—1.0	—.8	1.5	1.8
Credit unions	.8	.4	—.5	—.5	.4	5.8	3.5
Total	4.7	4.1	.9	—3.2	—1.9	9.1	6.3
Investment companies	.6	.2	—.1	.4	2.3	3.9	2.5
Commercial banks	28.6	18.7	—1.9	—6.5	.4	14.8	14.0
Business corporations	9.5	2.3	—5.8	—7.1	—1.5	- -	2.0
Government							
Nonbudget agencies	—.3	1.7	—2.5	—.4	.1	.8	- -
State and local general funds	4.2	5.4	6.8	9.5	1.5	3.0	3.5
Total	3.9	7.1	4.3	9.1	1.6	3.8	3.5
Foreign investors	7.7	11.6	31.5	28.2	—14.0	9.0	15.0
Individuals and others	14.9	8.8	15.5	22.5	37.3	25.1	25.5
Total	78.4	60.1	52.1	48.0	30.9	74.5	80.0

Source: U. S. Treasury Department.

FEDERAL AGENCY SECURITIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Budget agencies							
Export-Import Bank	—.3	—.3	—.4	—.9	—.7	--	--
Government National Mortgage Association	—.1	—.1	—.4	—.6	—.2	—.2	—.1
Tennessee Valley Authority	—.1	—.2	--	--	—.1	--	--
Total	—.4	—.6	—.8	—1.5	—1.1	—.2	—.1
Less: U.S. Government investment accounts	--	--	—.1	—.3	--	--	--
Federal Reserve banks	--	.1	--	--	—.1	--	--
Total, privately held	—.3	—.7	—.6	—1.2	—1.0	—.2	—.1
Nonbudget agencies							
Housing agencies:							
Federal home loan banks	—3.0	—2.1	1.5	9.2	5.8	6.4	2.5
Federal Home Loan Mortgage Corporation	.5	--	--	.7	.4	—.4	--
Federal National Mortgage Association	1.8	.6	1.3	9.2	7.4	6.4	5.6
Total	—.7	—1.5	2.9	19.1	13.6	12.4	8.1
Farm credit agencies:							
Banks for cooperatives	.1	.7	.1	.4	—4.3	--	—.4
Federal intermediate credit banks	.7	1.2	.7	.3	—8.8	—.9	—.4
Federal land banks	2.3	2.1	2.0	1.2	—4.4	—3.6	—2.6
Federal farm credit banks - system wide	.5	.3	1.8	2.5	28.1	15.0	15.1
Total	3.5	4.3	4.6	4.5	10.7	10.5	11.7
Total	2.7	2.8	7.4	23.6	24.3	22.9	19.8
Less: Federal Reserve banks	.9	.9	1.5	—.3	.7	.5	.5
Total, privately held*	1.8	2.0	6.0	23.9	23.6	22.4	19.3
Total	1.5	1.3	5.4	22.8	22.6	22.2	19.2
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	.4	.9	1.6	2.2	1.7	1.0	.8
Private noninsured pension funds	.3	.6	.6	--	1.0	.5	.4
State and local retirement funds	.7	.8	1.4	1.2	2.3	2.7	3.4
Fire and casualty insurance companies	.2	.3	.2	--	--	.4	.5
Total	1.6	2.6	3.8	3.4	5.0	4.6	5.1
Thrift institutions							
Savings and loan associations	.8	.6	1.3	1.4	.1	.6	.7
Mutual savings banks	.6	.5	.1	--	.1	.2	.2
Credit unions	.4	—.1	.5	--	—.6	2.1	1.1
Total	1.8	1.0	1.9	1.4	—.4	2.9	2.0
Investment companies	--	--	--	--	1.8	1.1	.5
Commercial banks	1.2	.6	—1.2	5.5	6.0	8.8	5.0
Business corporations	—.8	--	—.4	.7	—1.3	.2	.5
State and local general funds	.4	—.3	.6	2.1	.1	.8	.5
Foreign investors	—.1	.6	2.7	1.3	.5	2.3	2.0
Individuals and others	—2.6	—3.2	—2.0	8.3	10.8	1.5	3.6
Total	1.5	1.3	5.4	22.8	22.6	22.2	19.2

*Total includes Student Loan Marketing Association.

Source: U.S. Treasury Department.

CORPORATE BONDS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Gross new issues							
Manufacturing	16.7	12.7	11.5	9.1	9.2	16.0	15.8
Extractive	.6	.9	1.2	1.3	1.1	1.7	2.6
Transportation	3.6	4.5	2.8	2.4	3.0	3.4	3.4
Electric, gas and water	9.6	8.2	7.7	7.1	8.2	9.5	10.2
Communication	3.4	2.6	3.0	3.3	4.1	5.8	5.2
Financial and real estate	5.7	8.5	10.6	9.0	10.4	11.3	11.0
Commercial and other	1.9	2.6	3.2	3.4	2.8	4.0	3.6
Total	41.4	40.0	40.0	35.6	38.8	51.7	51.8
Less: Retirements							
Conversions	1.0	.9	1.0	1.0	1.2	1.4	1.6
Other	8.5	9.2	8.0	7.0	8.6	9.1	10.4
Total	9.5	10.1	9.0	8.0	9.8	10.5	12.0
Net new issues	31.9	29.9	31.0	27.6	29.0	41.2	39.8
Funds raised by:							
Financial intermediaries							
Finance companies	1.0	2.2	2.0	2.5	2.5	2.6	2.5
Real estate investment trusts	- -	—.2	—.1	—.2	- -	- -	- -
Commercial banks	1.3	1.9	2.3	1.1	2.4	2.2	2.3
Savings and loan associations	.1	.1	1.2	.7	1.4	.4	.6
Other	2.3	3.1	4.6	3.4	1.5	3.5	2.9
Total	4.7	7.1	10.0	7.5	7.8	8.7	8.3
Business corporations	27.2	22.8	21.0	20.1	21.2	32.5	31.5
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	7.9	13.2	16.9	15.9	11.3	8.8	9.4
Private noninsured pension funds	4.6	2.3	6.2	7.4	4.7	5.5	7.0
State and local retirement funds	5.0	4.0	5.3	4.7	7.6	8.8	10.0
Fire and casualty insurance companies	2.1	3.8	3.4	1.4	1.4	1.0	2.5
Total	19.6	23.3	31.8	29.4	25.0	24.1	28.9
Mutual savings banks	3.5	2.8	1.2	- -	—.8	1.3	.9
Investment companies	1.6	1.4	2.1	—.5	1.0	1.4	1.2
Commercial banks	1.8	—.6	- -	—.3	—.1	1.2	.5
Foreign investors	.7	.3	.8	.3	.1	1.5	2.0
Individuals and others	4.7	2.6	—4.9	—1.3	3.8	11.7	6.3
Total	31.9	29.9	31.0	27.6	29.0	41.2	39.8
MEMORANDUM							
Convertible bonds							
Gross new issues offered for cash	1.3	1.0	.9	.4	.9	4.3	4.8
Conversions	1.0	.9	1.0	1.0	1.2	1.4	1.6
Net increase in outstandings*	.3	.1	—.1	—.6	—.3	2.9	3.2

*Excludes convertible bonds issued in exchange for stocks.

Source: Securities and Exchange Commission.

CORPORATE STOCKS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Gross new issues							
Manufacturing	3.4	4.5	3.7	3.9	4.4	9.3	10.0
Extractive	.6	.6	1.1	1.5	1.8	2.8	3.1
Transportation	.1	.1	.5	.4	.4	.7	.8
Electric, gas and water	6.1	6.2	6.1	5.3	5.8	7.1	7.6
Communication	1.1	.9	1.5	.4	.8	.8	.9
Financial and real estate	.6	1.0	1.2	1.8	2.3	1.9	2.1
Commercial and other	.9	.8	.9	.9	1.4	2.0	2.0
Total	12.8	14.1	15.0	14.2	16.9	24.6	26.5
Less: Retirements	2.4	3.1	11.4	10.1	11.2	13.8	13.5
Net new issues	10.4	11.1	3.6	4.1	5.7	10.8	13.0
Funds raised by:							
Financial intermediaries							
Real estate investment trusts	—1.3	—.5	.3	.4	.9	.3	.4
Commercial banks	1.0	1.6	.6	1.1	1.3	1.5	1.6
Total	—.3	1.1	.9	1.5	2.2	1.8	2.0
Business corporations	10.7	10.0	2.7	2.6	3.5	9.0	11.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	2.1	3.1	1.9	.7	.6	.5	1.8
Private noninsured pension funds	5.8	7.3	4.4	5.3	13.1	13.6	14.5
State and local retirement funds	2.4	3.1	3.7	2.7	4.5	5.8	7.0
Fire and casualty insurance companies	—1.3	.1	1.9	3.4	5.0	4.5	4.0
Total	9.0	13.5	12.0	12.1	23.2	24.4	27.3
Mutual savings banks	.2	.1	.4	--	--	—.5	—.3
Investment companies	—1.1	—2.5	—3.8	—1.6	—2.8	—1.9	.5
Foreign investors	4.7	2.8	2.7	2.4	1.6	4.0	3.5
Individuals and others	—2.3	—2.8	—7.6	—8.9	—16.3	—15.2	—18.0
Total	10.4	11.1	3.6	4.1	5.7	10.8	13.0
MEMORANDUM							
Net new issues	10.4	11.1	3.6	4.1	5.7	10.8	13.0
Conversions	1.0	.9	1.0	1.0	1.2	1.4	1.6
Net of conversions	9.4	10.2	2.6	3.1	4.5	9.4	11.4

Source: Securities and Exchange Commission.

STATE AND LOCAL GOVERNMENT OBLIGATIONS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Long-term debt							
New offerings:							
Industrial bonds	3.0	3.0	4.3	4.1	4.2	4.2	4.4
Other	26.3	30.8	40.7	42.1	38.0	42.1	40.4
Total	29.3	33.8	45.1	46.2	42.3	46.3	44.8
Less: Retirements, refundings and adjustments*	12.9	14.1	18.8	18.5	20.0	20.5	21.0
Net	16.4	19.7	26.3	27.7	22.3	25.8	23.8
Short-term debt**							
New offerings	29.0	21.9	21.3	21.6	20.9	26.4	28.0
Less: Retirements and adjustments*	29.3	26.0	23.9	21.0	20.8	25.9	27.3
Net	—.3	—4.1	—2.6	.6	.1	.5	.7
Total	16.1	15.7	23.7	28.4	22.4	26.3	24.5
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	.8	1.1	.5	.4	- -	.1	.1
State and local retirement funds	1.9	1.4	.2	.4	—.1	.1	.1
Fire and casualty insurance companies	2.4	5.1	10.3	13.5	9.6	7.0	6.2
Total	5.2	7.5	11.0	14.2	9.6	7.2	6.4
Thrift institutions							
Savings and loan associations	.6	- -	- -	.1	—.1	—.1	- -
Mutual savings banks	.6	.9	.4	.5	—.6	—.3	—.1
Total	1.2	.9	.4	.6	—.7	—.4	—.1
Investment companies	2.2	3.0	3.9	3.1	4.0	7.3	6.8
Commercial banks	1.8	3.0	9.2	9.6	9.5	13.5	11.2
Business corporations	—.2	—1.1	- -	.2	- -	—.1	- -
State and local general funds	2.4	2.4	—.1	1.0	—.1	- -	.2
Individuals and others	3.5	- -	—.6	—.3	.2	—1.2	- -
Total	16.1	15.7	23.7	28.4	22.4	26.3	24.5
MEMORANDUM							
Structures	34.7	32.3	31.0	37.5	40.3	45.3	51.0

*Residual; includes adjustments for issues offered in the calendar year before issuance.
**Includes tax-exempt commercial paper.

Sources: Federal Reserve Flow of Funds Accounts, Securities Industry Association, *The Daily Bond Buyer* and U.S. Department of Commerce, National Income Accounts.

TOTAL MORTGAGES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Residential mortgages							
Home	41.4	65.4	99.5	105.3	107.9	80.8	93.0
Multifamily	--	1.9	7.3	10.2	8.8	9.1	10.5
Total	41.4	67.3	106.8	115.5	116.7	89.9	103.5
Commercial mortgages	11.2	13.6	18.4	23.3	25.7	19.6	23.0
Farm mortgages	4.6	6.1	8.8	10.2	16.2	15.8	16.5
Total	57.2	87.1	134.0	149.0	158.6	125.3	143.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	2.9	2.4	5.3	9.7	13.4	13.9	13.0
Private noninsured pension funds	1.5	1.8	2.9	2.5	1.6	1.4	1.6
State and local retirement funds	.5	1.1	1.0	1.7	1.3	2.0	2.5
Total	4.9	5.3	9.2	13.9	16.3	17.3	17.1
Thrift institutions							
Savings and loan associations	32.0	47.0	60.7	55.6	48.7	36.5	46.5
Mutual savings banks	3.5	6.5	9.1	8.2	5.7	2.3	3.8
Credit unions	.1	.9	1.8	.5	.4	.3	.5
Total	35.6	54.4	71.6	64.3	54.7	39.1	50.8
Other financial intermediaries							
Mortgage companies	1.2	2.7	3.0	2.8	.7	—2.1	--
Real estate investment trusts	—4.8	—3.8	—2.4	—1.0	—.3	--	--
Total	—3.6	—1.1	.6	1.8	.4	—2.1	--
Commercial banks	4.0	15.2	29.4	36.5	33.6	18.5	21.0
Government							
U.S. Government	6.2	—.8	2.0	3.2	6.3	6.2	6.2
Nonbudget agencies	5.3	2.9	3.5	12.2	14.4	12.6	12.2
State and local general funds	1.6	1.3	.9	2.6	4.5	9.5	11.0
Total	13.2	3.5	6.4	18.0	25.2	28.3	29.4
Individuals and others	3.1	9.8	16.8	14.4	28.4	24.2	24.7
Total	57.2	87.1	134.0	149.0	158.6	125.3	143.0
MEMORANDUM							
Mortgage pools*							
Government National Mortgage Association	6.5	12.3	14.3	9.5	22.1	18.2	19.0
Farmers Home Administration	3.0	2.3	2.2	3.6	5.3	4.0	5.0
Federal Home Loan Mortgage Corporation	.8	1.1	3.9	5.3	3.3	1.6	2.0
Total	10.3	15.7	20.5	18.3	30.6	23.8	26.0

*Ownership of mortgage pools has been allocated among the investor groups.

HOME MORTGAGES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Total 1- to 4-family mortgages	41.4	65.4	99.5	105.3	107.9	80.8	93.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	—1.4	—1.5	—1.3	- -	2.7	3.3	2.0
Private noninsured pension funds	1.5	1.8	2.7	2.1	1.3	1.2	1.3
State and local retirement funds	- -	- -	.2	.5	.2	.7	.5
Total	.1	.3	1.6	2.6	4.2	5.2	3.8
Thrift institutions							
Savings and loan associations	25.6	39.5	51.9	49.0	43.8	32.9	42.0
Mutual savings banks	1.9	5.5	7.2	6.3	4.3	2.3	3.3
Credit unions	.1	.9	1.8	.5	.4	.3	.5
Total	27.6	45.8	60.9	55.8	48.6	35.5	45.8
Other financial intermediaries							
Mortgage companies	2.0	3.5	3.5	2.5	—.4	—1.2	- -
Real estate investment trusts	—.5	—.2	—.2	—.1	- -	- -	- -
Total	1.5	3.3	3.3	2.4	—.4	—1.2	- -
Commercial banks	2.3	9.7	20.6	23.3	20.6	13.2	15.0
Government							
U.S. Government	4.3	—1.8	.9	1.0	1.7	1.8	1.7
Nonbudget agencies	2.5	.5	.5	9.0	9.2	6.3	6.0
State and local general funds	.8	.8	.6	2.0	3.2	6.5	7.0
Total	7.7	—.6	2.0	12.0	14.1	14.6	14.7
Individuals and others	2.3	6.9	11.1	9.1	20.8	13.5	13.7
Total	41.4	65.4	99.5	105.3	107.9	80.8	93.0
MEMORANDA							
Private residential construction put in place							
New housing units	34.4	47.3	65.7	75.8	78.6	59.0	66.0
Other	12.1	13.2	15.2	17.6	20.4	25.0	28.0
Total	46.5	60.5	81.0	93.4	99.0	84.0	94.0
	(in thousands of units)						
Private 1-family housing starts	892	1,162	1,451	1,433	1,194	862	950
Manufacturers' mobile home shipments	213	246	277	276	277	215	245

Sources: Federal Reserve, Federal Home Loan Bank Board, Bureau of the Census, U.S. Department of Commerce, Mobile Homes Manufacturers Association and Bankers Trust Company.

MULTIFAMILY, COMMERCIAL AND FARM MORTGAGES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Multifamily mortgages*	- -	1.9	7.3	10.2	8.8	9.1	10.5
Commercial mortgages	11.2	13.6	18.4	23.3	25.7	19.6	23.0
Farm mortgages	4.6	6.1	8.8	10.2	16.2	15.8	16.5
Total	15.8	21.6	34.5	43.7	50.7	44.5	50.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	4.4	3.9	6.7	9.7	10.6	10.6	11.0
Private noninsured pension funds	- -	- -	.1	.4	.3	.2	.3
State and local retirement funds	.5	1.1	.8	1.2	1.1	1.3	2.0
Total	4.9	5.0	7.6	11.3	12.1	12.1	13.3
Thrift institutions							
Savings and loan associations	6.5	7.6	8.9	6.6	4.8	3.6	4.5
Mutual savings banks	1.5	1.0	1.9	1.9	1.3	- -	.5
Total	8.0	8.6	10.8	8.5	6.1	3.6	5.0
Other financial intermediaries							
Mortgage companies	—.8	—.8	—.5	.3	1.1	—.9	- -
Real estate investment trusts	—4.4	—3.5	—2.2	—.9	—.3	- -	- -
Total	—5.2	—4.3	—2.7	—.6	.8	—.9	- -
Commercial banks	1.7	5.5	8.8	13.2	13.0	5.3	6.0
Government							
U.S. Government	1.9	1.1	1.1	2.2	4.6	4.4	4.5
Nonbudget agencies	2.8	2.4	3.0	3.2	5.2	6.3	6.2
State and local general funds	.8	.5	.3	.6	1.3	3.0	4.0
Total	5.5	4.0	4.4	6.0	11.1	13.7	14.7
Individuals and others	.9	2.8	5.6	5.3	7.6	10.7	11.0
Total	15.8	21.6	34.5	43.7	50.7	44.5	50.0
MEMORANDA							
Private multifamily housing starts (in thousands of units)	268	375	536	587	551	429	500
Commercial construction put in place	12.8	12.8	14.8	18.6	24.4	31.0	35.5

*Comprises mortgages on residential structures of five or more units.

Sources: Federal Reserve, Bureau of the Census, U.S. Department of Commerce and Bankers Trust Company.

OPEN MARKET PAPER

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Commercial paper	—1.5	4.4	11.9	18.3	28.9	12.0	15.5
Bankers' acceptances	.2	3.8	2.9	8.2	11.6	14.3	13.5
Finance bills	—.3	- -	.1	- -	- -	—.1	- -
Total open market paper	—1.5	8.1	14.9	26.5	40.4	26.2	29.0
Funds raised by:							
Financial intermediaries							
Finance companies	1.5	1.5	5.9	4.9	8.8	—1.8	3.6
Real estate investment trusts	.1	—.3	- -	.1	.1	—.2	- -
Commercial bank holding companies and other affiliates	- -	—.8	1.4	6.6	4.5	5.7	3.0
Other*	—.9	1.8	2.4	2.9	4.9	1.8	2.0
Total	.8	2.1	9.7	14.5	18.4	5.5	8.6
Nonfinancial sectors							
Business corporations	—2.8	2.8	2.2	4.1	9.8	7.4	7.0
Foreigners	.3	1.9	2.4	6.6	11.2	11.5	12.2
Noncorporate business	.2	1.3	.6	1.2	1.0	1.8	1.2
Total	—2.3	6.0	5.3	12.0	22.1	20.7	20.4
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	.6	.3	—.2	1.1	1.3	1.7	1.6
Private noninsured pension funds	—1.5	—1.0	.3	.8	1.0	1.3	1.0
Fire and casualty insurance companies	- -	- -	- -	- -	- -	3.0	1.5
Total	—.9	—.7	.1	1.9	2.3	6.0	4.1
Thrift institutions							
Savings and loan associations	.2	.4	.2	.5	.5	1.8	.8
Mutual savings banks	.1	.4	- -	—.6	.5	1.5	1.5
Total	.3	.8	.2	—.1	1.0	3.3	2.3
Investment companies	—.3	—.7	.8	3.9	15.8	12.6	7.0
Commercial banks	1.1	3.7	.3	—1.3	2.2	2.0	2.2
Business corporations	3.1	5.0	4.0	3.0	6.9	6.0	9.9
Foreign investors	—2.6	2.7	4.4	7.9	6.9	4.0	5.5
Individuals and others	—2.3	—2.6	5.1	11.3	5.3	—7.7	—2.0
Total	—1.5	8.1	14.9	26.5	40.4	26.2	29.0

*Includes retail captive finance companies, savings and loan associations and mortgage brokers.

Source: Federal Reserve Bank of New York.

CONSUMER CREDIT

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS RAISED							
Instalment credit							
Extensions - by type:							
Automobile	52.4	63.7	75.6	89.0	91.8	84.0	89.0
Revolving bank credit	24.5	30.5	38.3	51.5	60.4	59.0	64.6
Gasoline credit card	12.5	13.4	14.6	16.1	19.6	24.2	29.0
Mobile home	4.3	4.9	5.4	6.1	6.4	5.5	6.2
All other	86.7	98.5	120.1	135.6	144.3	130.3	136.2
Total	180.4	211.0	254.1	298.4	322.6	303.0	325.0
Less: Liquidations	172.7	189.4	218.8	253.5	287.1	301.0	305.0
Net	7.8	21.6	35.3	44.8	35.5	2.0	20.0
Noninstalment credit*	1.9	4.5	6.2	6.1	6.2	.5	3.5
Total consumer credit	9.7	26.1	41.5	50.9	41.7	2.5	23.5
FUNDS SUPPLIED							
Thrift institutions							
Savings and loan associations	1.2	1.2	1.3	1.2	2.0	2.5	2.7
Mutual savings banks	.2	.3	.5	.7	—.2	—.5	.1
Credit unions	3.8	5.5	6.4	8.3	2.2	—4.7	1.5
Total	5.2	7.0	8.2	10.2	4.0	—2.7	4.3
Finance companies - instalment	—.1	2.9	5.9	9.4	14.0	9.8	8.3
Commercial banks							
Instalment	2.9	10.8	18.6	23.8	13.4	—6.7	6.0
Noninstalment	.2	1.2	3.6	3.1	3.4	—1.5	1.0
Total	3.1	12.0	22.3	26.9	16.8	—8.2	7.0
Business corporations							
Instalment	.3	1.2	2.5	1.6	3.9	2.2	2.4
Noninstalment	.4	1.6	1.0	1.1	1.2	.4	.5
Total	.7	2.8	3.5	2.7	5.1	2.6	2.9
Noncorporate business							
Instalment	—.1	—.1	.3	.1	.2	.1	- -
Noninstalment	.9	1.5	1.3	1.5	1.5	.9	1.0
Total	.8	1.4	1.6	1.6	1.7	1.0	1.0
Total	9.7	26.1	41.5	50.9	41.7	2.5	23.5

*Comprises single-payment loans to individuals, charge accounts and service credit.

Source: Federal Reserve.

SOURCES AND USES OF FUNDS — LIFE INSURANCE COMPANIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Income							
Premium receipts	58.6	66.4	72.3	78.8	84.9	91.7	99.5
Net investment income	16.5	18.8	21.7	25.3	29.6	33.5	38.5
Other income	3.0	3.4	4.0	4.2	4.7	5.1	5.5
Total	78.0	88.6	98.0	108.2	119.1	130.3	143.5
Outgo							
Benefit payments	40.4	43.3	46.8	50.5	56.7	66.5	77.2
Operating expenses, taxes and other	15.4	16.3	18.4	20.9	23.6	26.3	29.3
Total	55.8	59.6	65.2	71.4	80.2	92.8	106.5
Increase in admitted assets*	22.2	28.9	32.7	36.8	38.9	37.5	37.0
USES OF FUNDS							
Investment funds							
Corporate bonds	7.9	13.2	16.9	15.9	11.3	8.8	9.4
Corporate stocks	2.1	3.1	1.9	.7	.6	.5	1.8
State and local securities	.8	1.1	.5	.4	- -	.1	.1
Foreign securities	1.3	3.8	1.7	1.8	.6	.7	.7
Total securities	12.1	21.2	20.9	18.7	12.5	10.1	12.0
Home mortgages	—1.4	—1.5	—1.3	- -	2.7	3.3	2.0
Multifamily, commercial and farm mortgages	4.4	3.9	6.7	9.7	10.6	10.6	11.0
Total mortgages	2.9	2.4	5.3	9.7	13.4	13.9	13.0
Total	15.1	23.6	26.3	28.4	25.9	24.0	25.0
Short-term funds							
Open market paper	.6	.3	—.2	1.1	1.3	1.7	1.6
Policy loans	1.6	1.4	1.7	2.6	4.7	7.4	5.0
Total	2.2	1.6	1.6	3.7	6.0	9.1	6.6
U.S. Government and agency securities							
U.S. Government securities	1.4	.6	—.1	—.5	.1	.2	.2
Federal agency securities	.4	.9	1.6	2.2	1.7	1.0	.8
Total	1.7	1.5	1.6	1.7	1.8	1.2	1.0
Total funds	19.0	26.7	29.4	33.7	33.6	34.3	32.6
Real estate	1.3	.9	.6	.7	1.2	1.8	2.2
Cash	—.1	.1	.1	.2	.3	.3	.3
Other - net	2.0	1.3	2.6	2.1	3.7	1.1	1.9
Total	22.2	28.9	32.7	36.8	38.9	37.5	37.0
MEMORANDUM							
Separate accounts*	1.6	1.5	2.6	2.6	3.3	3.8	4.2

*Net of appreciation or depreciation in market value.

Sources: Institute of Life Insurance, American Life Insurance Association, Federal Home Loan Bank Board and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — PRIVATE NONINSURED PENSION FUNDS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Employer contributions	19.8	21.8	26.5	30.5	34.0	38.0	42.0
Employee contributions	1.6	1.7	1.8	1.9	2.0	2.1	2.2
Investment income*	6.8	7.0	7.2	7.6	8.0	8.4	9.0
Total receipts	28.2	30.5	35.5	40.0	44.0	48.5	53.2
Benefit payments	12.6	14.8	16.5	18.2	20.0	21.7	23.5
Net receipts	15.6	15.7	19.0	21.8	24.0	26.8	29.7
USES OF FUNDS							
Investment funds							
Corporate bonds	4.6	2.3	6.2	7.4	4.7	5.5	7.0
Corporate stocks	5.8	7.3	4.4	5.3	13.1	13.6	14.5
Total securities	10.3	9.6	10.6	12.8	17.8	19.1	21.5
Home mortgages	1.5	1.8	2.7	2.1	1.3	1.2	1.3
Multifamily, commercial and farm mortgages	--	--	.1	.4	.3	.2	.3
Total mortgages	1.5	1.8	2.9	2.5	1.6	1.4	1.6
Total	11.8	11.3	13.5	15.2	19.4	20.5	23.1
Open market paper	—1.5	—1.0	.3	.8	1.0	1.3	1.0
U.S. Government and agency securities							
U.S. Government securities	3.4	1.6	2.1	—.1	1.4	3.0	3.8
Federal agency securities	.3	.6	.6	--	1.0	.5	.4
Total	3.7	2.1	2.7	—.1	2.4	3.5	4.2
Total funds	14.1	12.5	16.5	16.0	22.8	25.3	28.3
Cash	—1.3	—.8	1.5	4.4	.5	1.0	.6
Other - net	2.9	4.0	1.0	1.4	.7	.5	.8
Total	15.6	15.7	19.0	21.8	24.0	26.8	29.7
MEMORANDUM							
Insured pension plans							
Premium payments	10.2	14.7	14.6	16.1	17.9	19.8	22.0
Increase in reserves**	8.8	15.6	14.0	17.2	18.2	19.0	19.8

*Includes minor amounts of other income.
**Part of the increase in admitted assets of life insurance companies; net of appreciation or depreciation of market value.

Sources: Securities and Exchange Commission and Institute of Life Insurance.

SOURCES AND USES OF FUNDS — STATE AND LOCAL GOVERNMENTS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
Retirement Funds							
SOURCES OF FUNDS							
Government contributions	9.9	12.2	15.2	17.9	21.5	23.0	24.6
Employee contributions	4.6	5.3	5.7	6.1	6.5	7.2	8.0
Investment income	6.1	7.4	9.2	11.1	13.0	16.5	19.2
Total receipts	20.6	25.0	30.1	35.0	41.0	46.7	51.8
Benefit payments	8.1	9.4	10.8	12.2	13.8	14.7	15.8
Net receipts	12.5	15.6	19.3	22.8	27.2	32.0	36.0
USES OF FUNDS							
Investment funds							
Corporate bonds	5.0	4.0	5.3	4.7	7.6	8.8	10.0
Corporate stocks	2.4	3.1	3.7	2.7	4.5	5.8	7.0
State and local securities	1.9	1.4	.2	.4	—.1	.1	.1
Total securities	9.3	8.5	9.2	7.8	12.0	14.7	17.1
Home mortgages	--	--	.2	.5	.2	.7	.5
Multifamily mortgages	.5	1.1	.8	1.2	1.1	1.3	2.0
Total mortgages	.5	1.1	1.0	1.7	1.3	2.0	2.5
Total	9.8	9.6	10.2	9.5	13.3	16.7	19.6
U.S. Government and agency securities							
U.S. Government securities	1.0	2.0	2.3	4.2	4.0	4.5	5.2
Federal agency securities	.7	.8	1.4	1.2	2.3	2.7	3.4
Total	1.7	2.8	3.7	5.4	6.3	7.2	8.6
Total funds	11.5	12.4	13.9	14.9	19.6	23.9	28.2
Cash	—.3	.1	.3	.9	1.1	1.0	1.0
Other	.3	.6	2.0	3.3	2.7	3.5	3.3
Total	11.5	13.1	16.2	19.1	23.4	28.4	32.5
Discrepancy - sources less uses	1.0	2.5	3.1	3.7	3.8	3.6	3.5
General Funds							
USES OF FUNDS							
Investment funds							
State and local securities	2.4	2.4	—.1	1.0	—.1	--	.2
Home mortgages	.8	.8	.6	2.0	3.2	6.5	7.0
Multifamily, commercial and farm mortgages	.8	.5	.3	.6	1.3	3.0	4.0
Total mortgages	1.6	1.3	.9	2.6	4.5	9.5	11.0
Total	4.0	3.7	.8	3.6	4.4	9.5	11.2
U.S. Government and agency securities							
U.S. Government securities*	4.2	5.4	6.8	9.5	1.5	3.0	3.5
Federal agency securities	.4	—.3	.6	2.1	.1	.8	.5
Total	4.6	5.1	7.4	11.6	1.6	3.8	4.0
Total funds	8.6	8.8	8.2	15.2	6.0	13.3	15.2

*Does not include securities held under repurchase agreements.

Sources: U.S. Department of Commerce, National Income Accounts; Federal Reserve, Flow of Funds Accounts; Bureau of the Census, *Governmental Finance*; U.S. Treasury Department, *Treasury Bulletin*; U.S. Department of Housing and Urban Development, *The Supply of Mortgage Credit*.

SOURCES AND USES OF FUNDS — FIRE AND CASUALTY COMPANIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Unearned premium reserves	1.6	3.3	3.5	2.9	3.0	1.5	2.0
Loss reserves	5.0	7.8	10.2	12.4	12.6	12.5	12.5
Policyholders' surplus*	.3	2.3	6.2	5.9	5.3	4.5	4.0
Total	7.0	13.4	19.9	21.3	20.9	18.5	18.5
USES OF FUNDS							
Investment funds							
Corporate bonds	2.1	3.8	3.4	1.4	1.4	1.0	2.5
Corporate stocks	—1.3	.1	1.9	3.4	5.0	4.5	4.0
State and local securities	2.4	5.1	10.3	13.5	9.6	7.0	6.2
Total	3.3	9.0	15.7	18.3	16.1	12.5	12.7
Open market paper	--	--	--	--	--	3.0	1.5
U.S. Government and agency securities							
U.S. Government securities	2.5	3.1	3.2	.9	1.2	1.1	2.0
Federal agency securities	.2	.3	.2	--	--	.4	.5
Total	2.7	3.4	3.5	.9	1.2	1.5	2.5
Total funds	6.0	12.4	19.2	19.2	17.3	17.0	16.7
Cash	.1	.2	.3	.4	.2	.2	.3
Other - net	.9	.7	.5	1.6	3.4	1.3	1.5
Total	7.0	13.4	19.9	21.3	20.9	18.5	18.5

*Net of depreciation in market values.

Sources: Alfred M. Best Company, Inc., *Best's Fire and Casualty Aggregates and Averages*, annual editions, and U.S. Treasury Department.

SOURCES AND USES OF FUNDS — SAVINGS AND LOAN ASSOCIATIONS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Savings capital	42.8	50.6	51.0	44.9	39.5	41.0	48.0
Net worth	1.3	2.2	3.2	3.9	3.6	.8	1.2
Federal home loan bank advances	—4.0	—1.8	4.2	12.0	8.5	6.7	2.5
Bonds	.1	.1	1.2	.7	1.4	.4	.6
Bank loans	—.3	.2	1.0	—.5	.4	.2	.2
Other*	--	--	2.3	2.8	2.2	.8	1.2
Total	40.0	51.3	63.0	63.8	55.5	49.9	53.7
USES OF FUNDS							
Investment funds							
State and local securities	.6	--	--	.1	—.1	—.1	--
Home mortgages	25.6	39.5	51.9	49.0	43.8	32.9	42.0
Multifamily, commercial and farm mortgages	6.5	7.6	8.9	6.6	4.8	3.6	4.5
Total mortgages	32.0	47.0	60.7	55.6	48.7	36.5	46.5
Total	32.6	47.0	60.7	55.7	48.6	36.4	46.5
Short-term funds							
Open market paper	.2	.4	.2	.5	.5	1.8	.8
Consumer credit	1.2	1.2	1.3	1.2	2.0	2.5	2.7
Total	1.4	1.6	1.5	1.7	2.5	4.3	3.5
U.S. Government and agency securities							
U.S. Government securities	1.8	2.7	1.4	—1.7	—1.5	1.8	1.0
Federal agency securities	.8	.6	1.3	1.4	.1	.6	.7
Total	2.6	3.3	2.7	—.3	—1.4	2.4	1.7
Total funds	36.6	51.9	64.9	57.1	49.7	43.1	51.7
Cash and equivalents**	4.2	1.2	.5	5.4	2.7	4.5	2.5
Other - net***	—.8	—1.9	—2.5	1.2	3.2	2.3	—.5
Total	40.0	51.3	63.0	63.8	55.5	49.9	53.7

*Includes securities sold on repurchase agreements, commercial paper, and miscellaneous borrowings.
**Includes CDs, Federal funds, securities purchased on resale agreements and other short-term paper.
***Other assets less loans in process and other liabilities.

Sources: Federal Savings and Loan Insurance Corporation, Federal Home Loan Bank Board, Federal Reserve, Flow of Funds Accounts and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — MUTUAL SAVINGS BANKS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Deposits	11.2	12.6	11.0	7.9	3.0	6.9	9.0
Capital	.5	.6	.9	.9	.8	—.2	—.3
Total	11.6	13.2	12.0	8.8	3.8	6.7	8.7
USES OF FUNDS							
Investment funds							
Corporate bonds	3.5	2.8	1.2	- -	—.8	1.3	.9
Corporate stocks	.2	.1	.4	- -	- -	—.5	—.3
State and local securities	.6	.9	.4	.5	—.6	—.3	—.1
Total securities	4.3	3.7	1.9	.6	—1.5	.5	.5
Home mortgages	1.9	5.5	7.2	6.3	4.3	2.3	3.3
Multifamily, commercial and farm mortgages	1.5	1.0	1.9	1.9	1.3	- -	.5
Total mortgages	3.5	6.5	9.1	8.2	5.7	2.3	3.8
Total	7.8	10.3	11.1	8.8	4.2	2.8	4.3
Short-term funds							
Open market paper	.1	.4	- -	—.6	.5	1.5	1.5
Consumer credit	.2	.3	.5	.7	—.2	—.5	.1
Total	.3	.7	.5	.1	.3	1.0	1.6
U.S. Government and agency securities							
U.S. Government securities*	2.2	1.0	.1	—1.0	—.8	1.5	1.8
Federal agency securities	.6	.5	.1	- -	.1	.2	.2
Total	2.8	1.6	.1	—1.0	—.6	1.7	2.0
Total funds	10.9	12.5	11.7	7.9	3.8	5.5	7.9
Cash	.2	- -	- -	1.2	—.5	.8	.5
Other - net	.6	.7	.2	—.3	.5	.4	.3
Total	11.6	13.2	12.0	8.8	3.8	6.7	8.7

*Does not include securities held under repurchase agreements.

Sources: National Association of Mutual Savings Banks, Federal Home Loan Bank Board, Federal Reserve, Flow of Funds Accounts and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — CREDIT UNIONS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Share capital and deposits	5.5	6.1	7.4	7.0	3.9	7.0	8.0
Surplus and reserves	.4	.5	.3	.6	.4	.3	.4
Total	5.9	6.6	7.7	7.6	4.4	7.3	8.4
USES OF FUNDS							
Home mortgages	.1	.9	1.8	.5	.4	.3	.5
Consumer credit	3.8	5.5	6.4	8.3	2.2	—4.7	1.5
U.S. Government and agency securities							
U.S. Government securities	.8	.4	—.5	—.5	.4	5.8	3.5
Federal agency securities	.4	—.1	.5	- -	—.6	2.1	1.1
Total	1.1	.3	—.1	—.5	—.3	7.9	4.6
Total funds	5.0	6.6	8.2	8.3	2.4	3.5	6.6
Other - net	.9	—.1	—.4	—.7	2.0	3.8	1.8
Total	5.9	6.6	7.7	7.6	4.4	7.3	8.4

Sources: National Credit Union Administration, U.S. Department of Health, Education and Welfare, Federal Reserve and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — INVESTMENT COMPANIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Unit investment trusts - units issued	2.7	3.4	3.5	3.0	3.4	5.0	4.5
Money market funds* - net assets	1.3	--	.2	7.0	34.4	35.0	18.0
Conventional mutual funds							
Sales of capital shares	3.3	4.4	6.4	6.7	7.5	10.1	12.2
Less: Redemptions	3.7	6.8	6.0	7.2	8.4	7.9	9.0
Net sales of capital shares	—.4	—2.4	.4	—.5	—.9	2.2	3.2
Total	3.6	1.0	4.0	9.5	36.9	42.2	25.7
USES OF FUNDS							
Investment funds							
Corporate bonds	1.6	1.4	2.1	—.5	1.0	1.4	1.2
Corporate stocks	—1.1	—2.5	—3.8	—1.6	—2.8	—1.9	.5
State and local securities	2.2	3.0	3.9	3.1	4.0	7.3	6.8
Total	2.6	1.9	2.2	.9	2.2	6.8	8.5
Open market paper	—.3	—.7	.8	3.9	15.8	12.6	7.0
U.S. Government and agency securities							
U.S. Government securities	.8	.2	—.1	.4	2.3	3.9	2.5
Federal agency securities	--	--	--	--	1.8	1.1	.5
Total	.8	.2	—.1	.4	4.1	5.0	3.0
Total funds	3.1	1.4	2.9	5.2	22.1	24.4	18.5
Certificates of deposit	.3	—.7	.3	3.5	12.8	11.4	5.2
Other - net	.2	.2	.8	.8	1.9	6.4	2.0
Total	3.6	1.0	4.0	9.5	36.9	42.2	25.7

*Includes limited maturity tax-exempt funds.

Sources: Investment Company Institute, Federal Reserve, Flow of Funds Accounts, Securities and Exchange Commission and *The Daily Bond Buyer*.

SOURCES AND USES OF FUNDS — OTHER FINANCIAL INTERMEDIARIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
Finance Companies							
SOURCES OF FUNDS							
Cash flow							
Retained profits	.1	.9	1.7	2.1	2.7	1.0	1.8
Reserves	.4	1.1	2.2	2.9	4.4	3.2	2.8
Total	.5	2.0	3.9	5.0	7.1	4.2	4.6
Corporate bonds	1.0	2.2	2.0	2.5	2.5	2.6	2.5
Short-term funds							
Open market paper	1.5	1.5	5.9	4.9	8.8	−1.8	3.6
Bank loans	−1.7	−1.7	−.4	.6	2.0	2.6	1.6
Total	−.2	−.2	5.5	5.5	10.8	.8	5.2
Total	1.3	4.0	11.4	13.0	20.4	7.6	12.3
USES OF FUNDS							
Consumer credit	−.1	2.9	5.9	9.4	14.0	9.8	8.3
Loans to business							
Retail auto	.7	1.9	3.0	2.6	.7	−2.5	.5
Wholesale auto	−.5	1.3	3.2	.8	1.0	−2.3	.8
Retail paper	1.3	1.4	2.2	2.3	2.1	3.8	2.8
All other	.5	.9	1.9	2.6	3.1	--	.9
Total	2.1	5.4	10.3	8.3	7.0	−1.0	5.0
Total funds	2.0	8.3	16.2	17.7	21.0	8.8	13.3
Other - net	−.7	−4.3	−4.8	−4.7	−.6	−1.2	−1.0
Total	1.3	4.0	11.4	13.0	20.4	7.6	12.3
Real Estate Investment Trusts							
SOURCES OF FUNDS							
Long-term funds							
Corporate bonds	--	−.2	−.1	−.2	--	--	--
Corporate stocks	−1.3	−.5	.3	.4	.9	.3	.4
Mortgages	.4	.4	--	.1	--	.1	--
Total	−.9	−.3	.2	.3	.9	.4	.4
Short-term funds							
Open market paper	.1	−.3	--	.1	.1	−.2	--
Bank loans	−.6	−1.9	−2.4	−1.4	−1.4	−.7	−.5
Total	−.5	−2.2	−2.4	−1.3	−1.3	−.9	−.5
Total	−1.4	−2.5	−2.2	−1.0	−.4	−.5	−.1
USES OF FUNDS							
Mortgages							
Home mortgages	−.5	−.2	−.2	−.1	--	--	--
Multifamily, commercial and farm mortgages	−4.4	−3.5	−2.2	−.9	−.3	--	--
Total	−4.8	−3.8	−2.4	−1.0	−.3	--	--
Other - net	3.4	1.3	.2	--	−.1	−.5	−.1
Total	−1.4	−2.5	−2.2	−1.0	−.4	−.5	−.1

Sources: Federal Reserve, Flow of Funds Accounts and National Association of Real Estate Investment Trusts.

SOURCES OF FUNDS — COMMERCIAL BANKS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
Internal sources							
Retained profits	2.8	3.4	3.2	3.4	3.4	3.8	4.2
Valuation reserves	.4	.2	.6	1.0	1.3	1.5	1.7
Total	3.2	3.6	3.8	4.4	4.7	5.3	5.9
Net new security issues							
Bonds	1.3	1.9	2.3	1.1	2.4	2.2	2.3
Stocks	1.0	1.6	.6	1.1	1.3	1.5	1.6
Total	2.3	3.5	2.9	2.2	3.7	3.7	3.9
Demand deposits - net							
U.S. Government*	—1.7	—.1	4.3	6.8	.4	—2.6	- -
Other - net	6.7	12.7	21.8	15.2	18.2	1.0	4.0
Total	5.0	12.6	26.1	22.0	18.6	—1.6	4.0
Time and savings deposits - net							
Large	—10.1	—17.4	25.6	56.8	12.0	26.0	14.5
Savings	24.7	37.2	17.6	- -	—22.2	—13.5	—3.5
Checkable	.4	.9	.6	3.4	7.9	8.5	13.5
Other	15.3	19.6	10.9	4.8	53.6	53.0	50.0
Total	30.3	40.3	54.7	65.0	51.3	74.0	74.5
Total deposits - net	35.3	52.9	80.8	87.0	69.9	72.4	78.5
Other sources of funds							
Federal funds and RPs	1.5	13.9	10.6	18.8	18.1	21.2	17.0
Open market paper	- -	—.8	1.4	6.6	4.5	5.7	3.0
Other liabilities**	—11.3	—8.3	—1.5	22.2	26.3	—10.8	—1.0
Total	—9.8	4.8	10.5	47.6	48.9	16.1	19.0
Total	31.0	64.8	98.0	141.2	127.2	97.5	107.3

*Includes Treasury tax and loan notes.
**Eurodollar borrowings, changes in miscellaneous liabilities after adjustments, changes in interbank claims and borrowing at the Federal Reserve.

Sources: Federal Reserve, Flow of Funds Accounts, Federal Deposit Insurance Corporation and Bankers Trust Company.

Note: Bonds and open market paper include liabilities of bank holding companies.

USES OF FUNDS — COMMERCIAL BANKS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
Investment funds							
Corporate bonds	1.8	—.6	- -	—.3	—.1	1.2	.5
State and local securities	1.8	3.0	9.2	9.6	9.5	13.5	11.2
Total securities	3.6	2.4	9.2	9.3	9.4	14.7	11.7
Home mortgages	2.3	9.7	20.6	23.3	20.6	13.2	15.0
Multifamily, commercial and farm mortgages	1.7	5.5	8.8	13.2	13.0	5.3	6.0
Total mortgages	4.0	15.2	29.4	36.5	33.6	18.5	21.0
Term loans to business corporations	1.3	—1.2	5.2	15.7	17.7	12.5	14.0
Total	8.9	16.4	43.8	61.5	60.7	45.7	46.7
Short-term funds							
Business loans:							
Business corporations	—12.3	5.0	16.1	15.9	26.2	21.7	15.0
Noncorporate business, including farm	- -	—.6	2.9	2.3	3.4	1.3	1.8
Foreigners	2.5	1.7	.3	6.6	4.2	1.6	2.5
Total business loans	—9.8	6.1	19.3	24.8	33.8	24.6	19.3
Financial loans:							
Finance companies	—1.7	—1.7	—.4	.6	2.0	2.6	1.6
Real estate investment trusts	—.6	—1.9	—2.4	—1.4	—1.4	—.7	—.5
Savings and loan associations	—.3	.2	1.0	—.5	.4	.2	.2
Other	—1.1	—.3	1.5	4.1	—1.4	—2.7	- -
Loans on securities	2.1	6.6	2.2	—2.9	—.9	—.6	.3
Total financial loans	—1.6	2.9	1.9	—.1	—1.3	—1.2	1.6
Other:							
Open market paper	1.1	3.7	.3	—1.3	2.2	2.0	2.2
Consumer credit	3.1	12.0	22.3	26.9	16.8	—8.2	7.0
Other loans	- -	5.9	5.4	15.1	1.7	10.0	6.5
Total other	4.2	21.6	28.0	40.7	20.7	3.8	15.7
Total	—7.2	30.6	49.2	65.4	53.2	27.2	36.6
U.S. Government and agency securities							
U.S. Government securities	28.6	18.7	—1.9	—6.5	.4	14.8	14.0
Federal agency securities	1.2	.6	—1.2	5.5	6.0	8.8	5.0
Total	29.8	19.3	—3.1	—1.0	6.4	23.6	19.0
Total funds	31.5	66.3	89.9	125.9	120.3	96.5	102.3
Other financial assets							
Vault cash and member bank reserves	.8	—1.0	3.5	5.9	1.6	—2.5	1.8
Other	—1.3	—.5	4.6	9.4	5.3	3.5	3.2
Total	—.5	—1.5	8.1	15.3	6.9	1.0	5.0
Total	31.0	64.8	98.0	141.2	127.2	97.5	107.3

Sources: Federal Reserve, Flow of Funds Accounts and Federal Trade Commission.

Note: Includes banks chartered in the United States and their domestic affiliates, Edge Act corporations, and agencies and branches of foreign banks.

SOURCES OF FUNDS — BUSINESS CORPORATIONS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
Cash flow							
Undistributed profits*	47.1	58.9	69.8	82.0	103.7	95.2	99.2
Capital consumption allowances**	85.2	91.8	105.2	117.3	133.4	151.3	173.7
Total	132.3	150.7	175.0	199.3	237.1	246.5	272.9
Long-term funds							
Net new bond issues	27.2	22.8	21.0	20.1	21.2	32.5	31.5
Net new stock issues	10.7	10.0	2.7	2.6	3.5	9.0	11.0
Total net new issues	37.9	32.8	23.7	22.7	24.7	41.5	42.5
Mortgages	9.5	12.9	18.9	23.3	24.2	18.0	20.0
Term bank loans	1.3	—1.2	5.2	15.7	17.7	12.5	14.0
Industrial tax exempts	3.0	3.0	4.3	4.1	4.2	4.2	4.4
Total	51.7	47.5	52.1	65.8	70.8	76.2	80.9
Short-term funds							
Open market paper	—2.8	2.8	2.2	4.1	9.8	7.4	7.0
Short-term bank loans	—12.3	5.0	16.1	15.9	26.2	21.7	15.0
Finance company loans	2.2	5.2	10.3	8.3	7.0	—1.0	5.0
Total	—12.9	13.0	28.6	28.3	43.0	28.1	27.0
Other short-term sources							
Unpaid taxes	—1.8	7.5	—1.3	2.2	—2.0	—7.5	1.0
Direct foreign investment in U.S.	1.4	2.7	2.1	4.0	6.0	3.5	3.8
U.S. Government loans	.2	.2	--	1.7	1.2	1.4	1.2
Total	—.2	10.4	.8	7.9	5.2	—2.6	6.0
Total sources	170.9	221.6	256.5	301.3	356.0	348.2	386.8
MEMORANDA							
Bank loans							
Term	1.3	—1.2	5.2	15.7	17.7	12.5	14.0
Short-term	—12.3	5.0	16.1	15.9	26.2	21.7	15.0
Total	—11.0	3.8	21.3	31.6	43.9	34.2	29.0
Corporate profits							
Profits before taxes	132.1	166.3	192.6	223.3	255.4	245.0	252.0
Tax liability	50.6	63.8	72.6	83.0	87.6	82.2	81.6
Profits after taxes	81.5	102.5	120.0	140.3	167.8	162.8	170.4
Cash dividends	30.8	37.4	39.9	44.6	50.2	56.2	61.5
Undistributed profits	50.7	65.1	80.1	95.7	117.6	106.6	108.9
Nonfinancial corporations	47.1	58.9	69.8	82.0	103.7	95.2	99.2
Commercial banks	2.8	3.4	3.2	3.4	3.4	3.8	4.2
Other	.8	2.8	7.1	10.3	10.5	7.6	5.5

*Includes foreign branch profits.
**Before capital consumption adjustment.

Sources: Federal Reserve, Flow of Funds Accounts and U.S. Department of Commerce, National Income Accounts.

USES OF FUNDS — BUSINESS CORPORATIONS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
Short-term funds							
Open market paper	3.1	5.0	4.0	3.0	6.9	6.0	9.9
Consumer credit	.7	2.8	3.5	2.7	5.1	2.6	2.9
Net trade credit	.1	5.9	10.0	10.1	5.4	4.0	6.0
Total	3.9	13.7	17.5	15.8	17.4	12.6	18.8
U.S. Government and agency securities							
U.S. Government securities*	9.5	2.3	—5.8	—7.1	—1.5	- -	2.0
Federal agency securities	—.8	- -	—.4	.7	—1.3	.2	.5
Total	8.7	2.3	—6.1	—6.3	—2.8	.2	2.5
State and local securities	—.2	—1.1	- -	.2	- -	—.1	- -
Total funds	12.4	14.9	11.4	9.7	14.6	12.7	21.3
Physical assets							
Plant and equipment	113.5	129.2	157.4	190.9	216.9	236.5	254.0
Residential structures	2.0	3.0	4.8	4.2	4.3	3.8	4.0
Inventories - book value	4.2	27.2	34.5	44.6	56.5	42.0	46.0
Total	119.7	159.4	196.7	239.7	277.7	282.3	304.0
Cash assets	8.9	5.3	6.9	8.0	12.0	5.5	7.5
Other assets							
Investment abroad**	14.0	11.6	12.2	15.5	22.4	18.5	21.0
Miscellaneous assets***	1.4	11.6	11.7	15.0	12.9	12.0	14.5
Total	15.4	23.2	23.9	30.5	35.3	30.5	35.5
Total uses	156.4	202.8	238.9	287.9	339.6	331.0	368.3
Discrepancy - sources less uses	14.5	18.8	17.6	13.4	16.4	17.2	18.5
MEMORANDUM							
Growth of liquid assets	19.8	13.9	1.9	10.3	18.8	15.3	22.0

*Does not include securities held under repurchase agreements.
**Net of foreign security flotations for additions to and refinancing of direct investments.
***Includes securities purchased on resale agreements.

Sources: Federal Reserve, Flow of Funds Accounts and U.S. Department of Commerce, National Income Accounts and U.S. Balance of Payments.

FUNDS SUPPLIED — U.S. GOVERNMENT AGENCIES

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
U.S. Government and Budget Agencies							
Mortgages							
Home mortgages	4.3	—1.8	.9	1.0	1.7	1.8	1.7
Multifamily and farm mortgages	1.9	1.1	1.1	2.2	4.6	4.4	4.5
Total	6.2	—.8	2.0	3.2	6.3	6.2	6.2
Other loans of the Federal Financing Bank*	9.7	9.2	7.7	9.1	9.7	15.0	16.0
Total	15.9	8.4	9.7	12.3	16.0	21.2	22.2
Nonbudget Agencies							
Investment funds							
Home mortgages	2.5	.5	.5	9.0	9.2	6.3	6.0
Multifamily and farm mortgages	2.8	2.4	3.0	3.2	5.2	6.3	6.2
Total mortgages	5.3	2.9	3.5	12.2	14.4	12.6	12.2
Term loans by banks for cooperatives	.3	.5	.5	.4	.6	.5	.5
Total	5.6	3.4	4.0	12.6	15.0	13.1	12.7
Short-term funds							
Loans by banks for cooperatives	.1	.5	.2	.1	1.4	.5	.8
Loans by Federal intermediate credit banks	1.1	1.3	1.1	1.2	3.3	2.4	2.8
Total	1.3	1.8	1.3	1.3	4.7	2.9	3.6
U.S. Government securities**	—.3	1.7	—2.5	—.4	.1	.8	--
Total funds	6.6	6.9	2.8	13.5	19.7	16.8	16.3
FHLB advances to savings and loan associations	—4.0	—1.8	4.2	12.0	8.5	6.7	2.5
Total	2.6	5.1	7.1	25.6	28.2	23.5	18.8

*Other than mortgage funds.
**Does not include securities held under repurchase agreements.

Sources: Federal Home Loan Bank Board, U.S. Treasury, *Treasury Bulletin* and Farm Credit Administration, *Annual Report*.

ACTIVITY OF FOREIGNERS IN U.S. CREDIT AND CAPITAL MARKETS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
SOURCES OF FUNDS							
Net sales of securities							
Foreign bonds	6.3	8.7	5.1	4.1	4.0	1.4	2.5
Foreign stocks	.2	.3	.4	—.5	.8	2.5	1.2
Total	6.5	9.1	5.5	3.5	4.8	3.9	3.7
Loans from commercial banks							
To business	2.5	1.7	.3	6.6	4.2	1.6	2.5
To banks	1.1	4.2	2.7	9.5	—4.1	4.4	2.3
To official institutions	.3	.9	.1	2.1	2.1	3.4	2.0
Total	3.9	6.8	3.1	18.3	2.3	9.4	6.8
Open market paper	.3	1.9	2.4	6.6	11.2	11.5	12.2
Total	10.7	17.8	11.0	28.4	18.3	24.8	22.7
USES OF FUNDS							
Investment funds							
Corporate bonds*	.7	.3	.8	.3	.1	1.5	2.0
Corporate stocks	4.7	2.8	2.7	2.4	1.6	4.0	3.5
Total	5.3	3.1	3.5	2.7	1.7	5.5	5.5
Open market paper	—2.6	2.7	4.4	7.9	6.9	4.0	5.5
U.S. Government and agency securities							
U.S. Government securities	7.7	11.6	31.5	28.2	—14.0	9.0	15.0
Federal agency securities	—.1	.6	2.7	1.3	.5	2.3	2.0
Total	7.6	12.2	34.2	29.5	—13.5	11.3	17.0
Total funds	10.4	17.9	42.1	40.1	—4.9	20.8	28.0

*Excludes issues sold abroad by U.S. corporations.

Sources: U.S. Treasury Department, *Treasury Bulletin*; U.S. Department of Commerce, U.S. Balance of Payments and Federal Reserve, Flow of Funds Accounts.

INDIVIDUALS AND OTHERS

(in billions of dollars)

	1975	1976	1977	1978	1979	1980 (est.)	1981 (proj.)
FUNDS SUPPLIED							
Investment funds							
Corporate bonds	4.7	2.6	—4.9	—1.3	3.8	11.7	6.3
Corporate stocks	—2.3	—2.8	—7.6	—8.9	—16.3	—15.2	—18.0
State and local securities	3.5	- -	—.6	—.3	.2	—1.2	- -
Foreign securities	5.3	5.2	3.8	1.7	4.2	3.2	3.0
Total securities	11.1	5.1	—9.4	—8.8	—8.1	—1.5	—8.7
Home mortgages	2.3	6.9	11.1	9.1	20.8	13.5	13.7
Multifamily, commercial and farm mortgages	.9	2.8	5.6	5.3	7.6	10.7	11.0
Total mortgages	3.1	9.8	16.8	14.4	28.4	24.2	24.7
Total	14.2	14.9	7.4	5.6	20.3	22.7	16.0
Short-term funds - open market paper	—2.3	—2.6	5.1	11.3	5.3	—7.7	—2.0
U.S. Government and agency securities							
U.S. Government securities	14.9	8.8	15.5	22.5	37.3	25.1	25.5
Federal agency securities	—2.6	—3.2	—2.0	8.3	10.8	1.5	3.6
Total	12.3	5.6	13.4	30.8	48.2	26.6	29.1
Total funds	24.3	17.9	25.9	47.7	73.8	41.6	43.1